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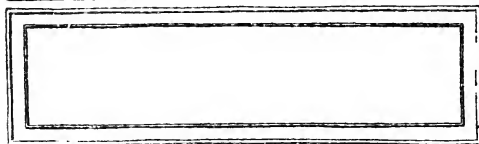
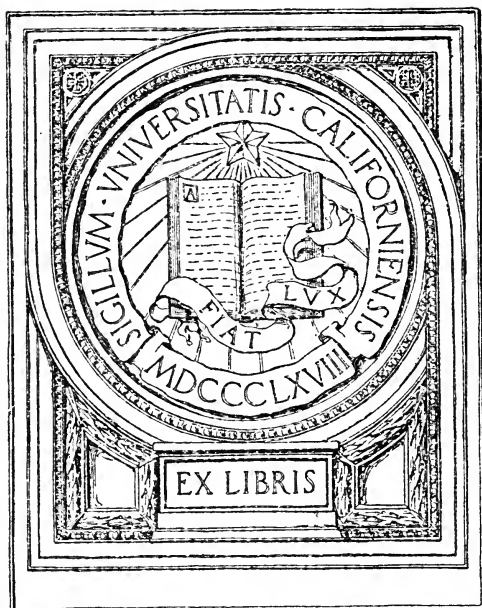
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REPORT

ON

STATUS OF MARINE INSURANCE IN THE UNITED STATES

By
S. S. HUEBNER

Expert in Insurance to the United States Shipping Board
and the Committee on the Merchant Marine and Fisheries

Including the
**RECOMMENDATIONS OF THE SUBCOMMITTEE ON
MERCHANT MARINE AND FISHERIES**

(Approved by the Committee on the Merchant Marine and Fisheries,
FEBRUARY 26, 1920)



WASHINGTON
GOVERNMENT PRINTING OFFICE
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TO THE
ATTENTION OF

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REPORT ON STATUS OF MARINE INSURANCE IN THE UNITED STATES.

CHAPTER I.

THE ECONOMIC IMPORTANCE OF MARINE INSURANCE.

Marine insurance a vital part of commerce.—Marine insurance is conceded to be an integral part of modern overseas commerce. It exists to indemnify interested parties against loss, damage, or expense occasioned accidentally in connection with vessels, cargoes, freight, and other marine interests through any of the many perils connected with water transportation. Water carriers and shippers of goods by water probably exceed all other business interests in the extent to which they protect their property through insurance. As has been aptly stated, "Marine insurance bears to commerce the relation of bodyguard rather than mere servile attendant. * * * Of the active forces which influence, control, or forbid the employment of shipping none has greater effect than the marine insurance power."¹

The fundamental purpose of marine insurance is to indemnify such loss and damage as is accidental, unavoidable, and unusual. But subject to this condition the modern marine insurance policy affords a very broad protection; in fact, nearly every conceivable contingency is assumed. The modern "warehouse to warehouse" clause enables goods to be protected from the time they leave the shipper's warehouse in the interior of this country, through all the various stages of the journey either by water or land carriers, until they are safely delivered into the warehouse of the foreign consignee. In fact, it is asserted that modern marine insurance should justly be called "transportation insurance."

The universal use of credit in commercial transactions and the small margin of profit on which such transactions are customarily conducted make marine insurance almost as necessary an instrumentality of overseas trade as the vessel itself. Owners of vessels must necessarily protect themselves against the loss of vessel and freight charges, and, in the case of ordinary cargo carriers, willingly pay for such protection a sum equal to the current rate of interest on the invested capital. Where the vessel is only paid for in part, the mortgagee will want his equity protected just as certainly as is the practice in fire insurance under the so-called "mortgage clause." Should the owner charter his vessel to some one else, the contract of hire—"the charter party," as it is called—will set forth in detail the obligation of the respective parties to arrange for adequate protection against loss of the vessel; while the charterer, in turn,

¹ William W. Bates: The American Marine, p. 182.

will want to protect himself against possible loss of freight earnings. Shippers and consignees need marine insurance protection against (1) loss of the capital, usually borrowed to the extent of 80 to 90 per cent, invested in the cargo; (2) loss of profits because the goods fail to reach destination or arrive in damaged condition, and (3) loss of prepaid or collectible freight and other prepaid expenses on lost or damaged goods.

Creditors are also vitally dependent upon adequate protection of cargo against which they have a lien, and a marine insurance certificate thus invariably accompanies a bill of lading or a foreign bill of exchange. Ordinarily four documents, known as the "commercial set," represent and serve as a substitute for the goods constituting a shipment, viz., the invoice ("the merchant's bill for the goods"), the bill of lading ("the carrier's receipt for the goods"), the draft or bill of exchange ("the merchant's payment"), and the marine insurance certificate ("the document of guaranty"). The marine insurance certificate is thus an integral part of the modern commercial set of documents, and emphasis should be placed on the fact that it is the document of guaranty. Commercial history shows that the introduction of the draft or bill of exchange completely revolutionized commercial procedure and made possible the enormous development of modern international commerce. But the bill of exchange could never have attained its usefulness if it represented merely an unsecured debt. Its ready acceptance lies in the fact that it represents a secured debt, and the security is guaranteed by the insurance certificate which promises indemnification of the goods on the security of which the bill of lading was issued.

So essential has the marine insurance certificate become, owing to the requirements of modern commerce for certainty, convenience and speed, that it has largely taken the place of the insurance policy itself as the document used in financing commercial transactions. The same requirements have also led to the general practice of large exporters and others taking out "open contracts" of marine insurance which will protect all their shipments over certain described routes. Under such policies the insured is usually given the privilege of issuing certificates from time to time on a prescribed form provided by the underwriter. These certificates, when properly countersigned, serve as a convenient way of issuing successive negotiable evidences of the insurance itself. By this method the insured is enabled, as occasion requires, to draw against his insurance account in much the same manner as checks are drawn against a bank account. Such certificates make unnecessary the issuance of many copies of the policy, i. e., for each individual shipment, loan, or other purpose. Exporters are thus enabled to negotiate a lump-sum total of insurance under one policy, and, as occasion arises, to protect their consignees, bankers, or other creditors, by issuing to them separate documents which evidence the original policy and which, by transferring to the holder the benefit of the insurance, act as a substitute therefor. The wording of the certificate can be made such as to give it quasi negotiability, thus making it readily acceptable, where the responsibility of the underwriter is beyond doubt, in all the leading banking centers of the world.

✓ **Economic services rendered by marine insurance.**—Before discussing marine insurance as a national weapon to acquire international trade,

it is desirable that we analyze briefly its several economic functions. In the absence of marine insurance it is certain that general and continuous commerce by water would either have to cease or be conducted on an uneconomical and unscientific basis. Uncertainty would take the place of certainty and commerce would be reduced to a highly speculative if not a gambling plane. Freight charges and mercantile profits would necessarily have to be arranged with reference to an uncertain hazard and could no longer bring a fair, regular, and certain return to invested capital.

Eliminates the paralyzing effects of worry and fear.—Few enterprises are surrounded by so many serious hazards as maritime ventures. Therefore in the absence of underwriters who are willing to assume the consequences of such hazards for a definitely stated premium a paralyzing sense of fear and worry would be general in the shipping industry. Even at the beginning of the seventeenth century the British Parliament gave expression to the advantage of marine insurance by describing it (43 Elizabeth, c. 12) as a means—

Whereby it cometh to pass that upon the loss or perishing of any ship there followeth not the undoing of anyone, but the loss lighteth rather easily upon many than heavily upon few, and rather upon them that adventure not than upon those who do adventure; whereby all merchants * * * are allowed to venture more willingly and freely.

During the present international war marine insurance proved so essential to the free movement of commerce, the very life blood of nations, that 11 governments, including the United States and Great Britain, saw fit to enter the insurance business at rates lower than cost. Vessel owners naturally desire to be protected against the loss of their investment or of freight charges which may not have been collected in advance. Shippers and consignees need such protection, since their goods have been financed with borrowed funds, and since bills of lading usually provide that "freight prepaid will not be returned, goods lost or not lost," or that "full freight is payable on damaged or unsound goods." By thus giving certainty instead of uncertainty, marine insurance enables merchants and vessel owners to venture more and to enlarge their commercial efforts.

Distribute losses to the ultimate consumer.—In the last analysis all costs in operating any business are reflected in the final price for the article or service. The consumer must ultimately pay all bills; and in commercial transactions this will include losses through marine disasters. The purpose of marine insurance is to reduce such losses to a statistical basis and to distribute the same equitably over all the interests making up the field of commerce. Vessel and cargo owners are thus enabled to buy certainty with a definitely stated premium. The sum thus paid is regarded as a normal item in the cost of operation, and like any other costs will be included in the price of the goods or service. In this way producers are freed from the burden of carrying uncertain losses, while consumers are made to assume the risks of industry in proportion to the volume of their consumption. This is as it should be, and may be regarded as one of the essential purposes of all kinds of insurance.

Causes the cheapest distribution of loss.—Not only does marine insurance distribute losses equitably to the ultimate consumer, but it materially reduces the amount thus distributed. This is due to the operation of the law of average when applied to a combination of a

large number of separate risks. The larger the number of risks assumed, the less uncertainty will there be as to the total amount of loss on all the risks combined; and the less uncertainty of loss, the smaller is the accumulation of money necessary from the many who insure to meet the losses of the few.

Were there no system of marine insurance, the owner of a vessel, if obliged to carry the risk himself, would naturally want as a precautionary measure to increase his freight charges by probably some 10 or 20 per cent. And even then he would be gambling at heavy odds, since an early loss, before his self-insurance fund had reached an appreciable amount, would nearly wipe out his equity. Under marine insurance, however, this vessel owner is enabled to substitute for the great uncertainty confronting him as an individual a certain and definite payment (the premium) amounting on the average to probably not more than one-tenth of the allowance considered necessary under a noninsurance system. The burden of the consumer is limited to this smaller premium, whereas in the absence of insurance it would be substantially increased. By thus eliminating uncertainty, marine insurance greatly reduces the margin of profit. Merchants are enabled to handle goods on a much narrower margin of return, since they are assured of their anticipated trade profits. Vessel owners are no longer compelled to accumulate a substantial fund to meet an uncertain hazard; while creditors, assured of the greater financial stability of borrowers, will feel freer to enlarge their loans and to reduce their rates of interest.

Serves as a basis of credit.—Estimates are to the effect that about nine-tenths of the property values entering commerce represent borrowed funds, and that only about one-tenth is conducted on a cash basis. A hundred bales of cotton, for example, are purchased for \$20,000 and are paid for with the purchaser's own capital. If this cotton had first to be shipped abroad and further purchases deferred until remittance of the sales price, only three or four purchases would be possible during the cotton-moving season. Instead, this cotton is at once graded, insured, and represented by a bill of lading, and this bill of lading, together with the marine insurance certificate, will serve as collateral for a loan of approximately 90 per cent of the market value. A new lot of cotton may be purchased immediately with the proceeds of this loan, and this purchase, after being graded and insured, may again serve as the basis for another loan. The process may be continued until the successive cargoes bought on credit, and probably all still afloat, may equal some eight times the original capital of \$20,000. The opportunity for profit, it will be seen, is likewise eight times what it would be if business could be transacted only on a cash basis.

The same general process is followed in handling most of the Nation's leading products that enter our foreign and coastwise trade. Moreover, on most of these transactions the margin of profit is very small; in fact, the size of the insurance premium is often a deciding factor as to whether a commercial venture shall be undertaken. Under such conditions it is clear that creditors must insist that adequate protection shall be afforded them against the loss of the goods on which they have a lien. Insurance of the cargoes, assuming the financial reliability of the underwriter, makes the credit transactions as certain as though all payments had been made in cash.

Standardizes types of risks and creates justice between property owners.—It is important that types of vessels and cargoes and the numerous circumstances connected therewith in different voyages and seasons, or under different methods of loading and handling, should be correctly estimated by those who make it a regular business, i. e., by those who engage in the underwriting vocation. It is only in this way that there can result a correct and just standardization of different types of risks under different circumstances. Marine insurance serves to treat risks scientifically, so that one group of property owners is not unjustly burdened for the benefit of another. There is an approximation of "like rates for like hazards" and justice between property owners, trade routes, and types of vessels and commodities.

Marine insurance a national commercial weapon.—Thus far attention has been directed solely to the services of marine insurance as a fundamental instrument of commerce. But foreign trade is always a subject of keen rivalry between nations, and emphasis should therefore be given to the importance of the possession of a strong marine insurance institution as a source of national profit and independence, and a powerful weapon for acquiring and controlling important channels of foreign trade. The new era that is being ushered in will witness an international trade rivalry unsurpassed for keenness. In this contest marine insurance is bound to play an important rôle. Should this country continue to be a laggard in strengthening and broadening its protective (insurance) facilities it may justly be regarded as guilty of dissipating a rich opportunity.

The necessary servants of exporters and importers are banking, shipping, and insurance, the latter fulfilling "the very vital purpose of protecting and stabilizing the banking, commercial, and shipping factors." To accomplish most, shipping, banking, and insurance (both marine and fire) must be united into some cooperative working arrangement.¹ Continued separation means weakness, lack of national prestige and disjointed action; whereas, union results in prompt and adequate service, a united action to meet competitive

¹ Recognition of this thought has recently been given expression in many places. A few of these expressions may here be indicated:

The Americas (June number), published by the National City Bank: "A great world trade for America must be built on the foundation of three principal commercial facilities: A merchant marine under our own flag; a system of adequate banking and financial machinery reaching all countries in which we seek to sell our products or buy those of other nations on favorable terms; and the protection of fire and marine insurance conducted under American auspices and run on lines familiar to the business world of the United States."

Benjamin Rush, president of the Insurance Co. of North America, while testifying before the subcommittee on the Merchant Marine and Fisheries, p. 161: "Banking, ship owning, and marine insurance, taken together, are the three cords which are necessary to be intertwined in order to get a profitable and healthy merchant marine and to provide a healthy trade."

Edward N. Hurley, chairman United States Shipping Board, while testifying before the subcommittee on the Merchant Marine and Fisheries, p. 10: "If we are going into the merchant marine business, which we are in and are going to continue in, we must have all branches of the service arranged for and carried out in America; the American bureau registering the ships, insurance, load lines, and all these things must be American."

The Chamber of Commerce of the United States, resolution adopted at its meeting in St. Louis in April, 1919: "The stimulation and development of the Nation's trade is vital to the country's prosperity and the solution of its economic and industrial problems. The members of this chamber, all business, agricultural, and industrial associations and organizations, should direct the attention of their members to the importance of this subject and the necessity for encouragement and support of all measures which will facilitate and enlarge American trade with other countries, extend American banking and insurance to accompany and supplement the foreign enterprises of American commerce, and provide adequate cable and wireless facilities."

situations, and a sense of national independence worthy of the respect of others.

Appreciating the numerous property and credit connections that radiate from the leading shipping, banking, and insurance interests at practically every center of foreign trade, British commercial interests have long realized the advantages of cooperation between these three complementary factors, since each can be made to serve and hasten the growth of the others. Not only have British insurance companies been encouraged to unite into huge combinations through actual consolidation or community of interests, but they have been permitted, unlike the practice of this country, to write numerous kinds of insurance with a view to reducing their overhead expenses, to enlarging their underwriting facilities to the utmost, and to enabling them to meet the full insurance needs of their clients. Nor is there the slightest hesitancy in cooperating with other commercial agencies to acquire business. English bankers throughout the world, for example, have arrangements with English insurance companies whereby they provide insurance for their clients—fire insurance to protect their loans on goods while in process of production, and marine insurance to protect their loans when the goods are ready for export. Consult the directorates of British insurance companies and it becomes clear how judiciously the leading shipping, banking, and commercial interests are represented. And then consult the directorates of leading shipping, banking, and commercial interests, and it again becomes clear how judiciously the insurance interests are represented. Each factor helps the others through a proper association of business interests, until the whole foreign trade equipment—shipping, banking, and insurance—is judiciously knit together into one great force capable of pursuing a united and intelligent policy.

The benefits flowing from such united action are many, and merely need be mentioned to be understood. Probably foremost in importance is the power it gives to preempt leading lines of trade. This might be accomplished by furnishing clients with their full requirements for all kinds of insurance protection and by affording them a continuous insurance market. When once a certain line of trade has been brought under the influence of one of the three important factors referred to, it very generally follows that the entire course of that trade will be controlled thereafter. But the power of marine insurance may also lie in its being denied altogether, or in being given only under unfavorable conditions to the citizens of other nations which do not possess adequate insurance facilities of their own. Several instances were called to the attention of the subcommittee on the Merchant Marine and Fisheries where American interests during the recent war emergency were obliged, after German competition was prohibited, to rely upon foreign insurance at rates apparently designed to block American endeavors in certain directions.

By spreading its insurance agencies to the remotest parts of the earth, Great Britain has afforded to its merchants everywhere the convenience of having underwriting facilities near at hand. Its merchants are therefore free to extend their activities because of the certainty of a continuous insurance market. American underwriters, on the contrary, were never able, until the recent extension

of American branch banks to foreign countries, to enter the foreign field to any appreciable extent except through affiliation—an uncertain way to say the least—with foreign branch banks. Prior to the war, American fire and marine companies rarely sought licenses in foreign fields with the exception of Canada and Cuba. Only two companies were reported doing business in England, one each in France, Mexico, Australia and China, and none in such important South American countries as the Argentine and Chile. The existence of a comprehensive national marine insurance institution also greatly facilitates the adjustment of losses, a factor frequently urged in the testimony before the subcommittee on the Merchant Marine and Fisheries. Insurance with a foreign company, it was asserted, generally requires the transmission of papers, eliminates the advantages of personal conference unless the insurer happens to have a personal representative abroad, often produces delay in adjustment and final payment, and in case of failure to agree necessitates a suit in the foreign market to obtain redress.

Possession of sufficient marine insurance facilities, free from foreign control, is also essential for the proper safeguarding of commercial information. Our recent experience with German insurance and reinsurance companies should make unnecessary further proof that marine insurance companies acquire vital trade secrets exceedingly useful to the nations they represent. Underwriters know the cargoes, consignors, consignees, carriers, trade routes, destinations, financial affiliations, and leading contract terms of commercial transactions. Adjusters of losses and surveyors of vessels are also in a position to obtain much information of a secret character. Moreover, where reinsurance facilities are so scanty as to require reinsurance with foreign companies, the reinsurer becomes thoroughly conversant with vital business secrets which it might be presumed are known only to the original insurer. A later chapter will indicate the lamentable absence of American marine reinsurance facilities and our appalling dependance upon foreign companies for a sufficient spread of risk. There is no doubt that both England and Germany had this phase prominently in mind when they arranged to make themselves independent of all others in the matter of marine insurance. Both deliberately pursued a policy of strengthening their insurance facilities to such an extent as to take care of the largest risks without resort to reinsurance in the international market.

But quite aside from the aforementioned advantages—which, however, should receive first consideration in the determination of a national policy—there is no reason why the United States, with its great wealth and other facilities, should supinely allow two-thirds of all its marine insurance to flow into foreign hands, as is now the case. During 1918 American branches of admitted foreign marine companies collected nearly \$40,000,000 of marine premiums, and estimates of leading underwriters would indicate that at least another \$22,000,000 was collected on marine risks exported directly to nonadmitted and to the home offices of admitted foreign companies. Moreover, American marine insurance companies paid approximately \$10,000,000 during 1918 for reinsurance placed with foreign nonadmitted companies, an amount equal to one-seventh of

their total net marine premium income. During the same year the fire premiums received by foreign companies in the United States totaled \$144,500,000. In all, fire and marine premiums collected by foreign companies in the American market aggregated some \$216,000,000 in 1918, and to this may be added many millions more received from casualty, liability, and the various forms of inland insurance. All told, foreign companies may be said to derive insurance premiums from the American market of approximately \$250,000,000 annually. It certainly does seem, as was recently stated, that—

The obvious economic duty of the United States and the opportunity of American capital is to use and direct this vast field of income for its own internal strengthening and to effect its own world-wide distribution, in which it has the greatest share and from which good profits arise.¹

Existing obstacles mainly of our own making.—Despite the serviceability of marine insurance as a national weapon for the upbuilding of a large merchant marine and a growing foreign trade, this country has thus far thoughtlessly dissipated its opportunity by pursuing a policy of needless and paralyzing restriction. Later chapters will make clear the lamentable status of American marine insurance, if judged from the standpoint of a strong national institution free from foreign control and capable of serving independently and fully the national interest. Approximately two-thirds of all the marine insurance originating in this country is controlled directly, or by way of reinsurance, by foreign or foreign-controlled companies. Regrettable as it must seem, this situation is chiefly of our own making. Thus far we have taken a local view of marine insurance, whereas its status, unlike other forms of insurance, is essentially national and international in character. Existing difficulties are traceable in part to the unconscious failure of American business interests to recognize the national business spirit, so prevalent in other leading commercial nations, of supporting our own business enterprises everywhere against all others if conditions are substantially equal. But the basic trouble is found in our dual system of government—a Nation of States, each actuated by its own local needs and views in insurance matters without much reference to the national good. To quote one significant comment on the present situation:

Foreign companies have greatly profited here by these singular facts: That the United States, while enforcing with respect to its import commerce the principle of a protective tariff, has abandoned its entire home insurance fields—so rich in values and opportunities—to the principle of free trade. At the same time, under the numerous restrictive State laws for the regulation of interstate insurance (having the effect of a protective tariff on insurance between the States), American companies have been securely bound against engaging in free-trade world's insurance. This is doubly economic suicide, since it prohibits us from competing with foreign countries to protect our own insurance as well as to obtain an exchange share of theirs.

With 48 architects at work, each acting independently of the others and without regard to the needs of world commerce, it is small wonder that the structure of marine insurance legislation is lacking in many vital respects and that there has resulted a setting up, as a

¹ Henry Evans, *The Vital Relation of Insurance to Banking and Shipping in the World's Trade after the War*, p. 22.

former insurance superintendent of New York recently declared, "of large hurdles in the way of our companies' progress." Some of these hurdles represent legislation applicable primarily to fire insurance, and marine insurance had the misfortune of sharing an unmerited fate by being grouped inadvertently with its larger companion without any real consideration of the vital differences between the two. Other restrictions date back to a time when insurance had not yet developed to its present state of strength and systematic organization and when it was necessary to protect the public against schemes and practices which are not now likely to recur. The hearings on marine insurance before the subcommittee of the Merchant Marine and Fisheries clearly indicate the leading legislative disabilities which underwriters regard as most inimical to the upbuilding of American marine insurance. These restrictions were summarized and embodied in a communication submitted jointly by the committee and the United States Shipping Board, under date of December 19, 1919, to the governors and insurance commissioners of the several States. As stated in this communication, they are:

(1) Removal by the States of restrictions on the kinds of insurance (other than life insurance) which may be transacted by American companies. Foreign competing companies have the privilege of writing many forms of insurance, and have found this privilege a great source of strength. In recent years there has been a steady absorption by British companies of other liability, casualty, and workmen's compensation companies through actual amalgamation or some form of community of interest. But whatever the method, the motive is the same, viz, an extension of business, a smaller overhead charge, a reduced outlay along many lines, and an ability to secure the support and accommodate the full insurance demand of large concerns. American marine insurance companies are barred from writing casualty and compensation forms of insurance, and protection, and indemnity insurance. They are almost a unit in supporting this recommendation.

(2) Changing the system of taxing gross premiums to taxation on net profits. This is the British system and is just, whereas the taxation of gross premiums is neither scientific nor equitable, and has nothing to support it except ease of collection. A hull insured for \$100,000 at 5 per cent in the United States pays a tax on the premium of approximately \$200, against about \$25 in England. Gross-premium taxation has created a real disability for American companies, whereas the substitution of a tax on net profits would do much toward placing them on an equal footing with their foreign competitors. Moreover, a premium written may end in a loss, without, however, any consideration being shown under a gross-premium tax.

(3) Revision of the insurance law of the several States, which is often conflicting and which apparently was drawn primarily with regard to the regulation of fire rather than marine insurance. Foreign competitors are under no such disability. American marine insurance companies are a unit in recommending that steps be taken to secure greater uniformity in State legislation with reference to marine insurance with a view to obviating statutory conflicts, and a needless multiplicity of expensive regulations.

(4) Greater liberality with reference to American companies seeking to enter the foreign field directly, or which may have found it necessary to reinsure in foreign countries in order to secure a proper spread of risk. Due recognition should be given to the American company in its financial statements as regards (1) deposits required to be made in foreign countries in order to do business there, and (2) sums owing to it from reinsurers abroad.

(5) No obstacles should be placed in the way of permitting groups of American companies to unite, under proper regulations, to form companies, associations, or pools for the purpose of assuming the reinsurance needed by the group, or to undertake operations in foreign countries. Among the greatest handicaps to American marine insurance companies have been the absence of sufficient reinsurance facilities in this country, and the heavy reinsurance placed abroad with comparatively little reciprocity in this respect from foreign under-

writers. Combination and working cooperation between underwriters are fostered abroad. This gives the advantage of one overhead charge. It facilitates the wide spread of business. It also gives great financial strength and comity of action.

The necessity of freeing American marine insurance from the aforementioned disabilities is more urgent now than ever before. For the first time in over half a century the United States has acquired a large overseas merchant marine, and the thoughts of its people are once more strongly centered on the prospects of a growing foreign trade. But as the above-mentioned communication states:

We must not be blind to the fact that the immediate future will be a time of intense international rivalry for commercial position, and in this competitive contest marine insurance will assume a very important rôle. Nothing should be left undone which will legitimately attract new capital into the marine insurance business or will encourage the capital already invested to attempt greater things. The immediate situation requires that the legislative policy of the several States shall not run counter to the needs of the nation as a whole.

Even at the present time, according to testimony before the subcommittee on the Merchant Marine and Fisheries, a well-directed competitive campaign is being waged by foreign underwriters with a view to again reducing American marine insurance to the insignificant position of prewar years. Numerous American companies, it is true, entered the marine insurance business during the war, but nearly all are comparatively small and, in view of existing foreign competition, most of them will soon succumb to the inevitable if their pathway is not freed of present obstructions. Our vessel owners and merchants are certain to face and should be prepared to meet the stiffest kind of foreign competition and should not, to quote once more from the joint communication of the committee and the Shipping Board—

Be handicapped by the absence of marine insurance facilities at home, while foreign nations use their well-developed underwriting facilities to comb out profits and to control, directly and indirectly, many of the leading lines of international commerce.

Circumstances have favored us in the creation of a large merchant fleet within an incredibly short time. Congress has also legislated in favor of the creation of exporting organizations and the extension of American banking facilities to foreign markets. But shipping and banking are only two of the three vital factors that serve as the foundation of international trade. Marine insurance, adequate in extent and operated under American auspices, is the third factor, and must be united with the other two to make our foreign-trade equipment complete.

CHAPTER II.

VOLUME AND CLASSIFICATION OF THE BUSINESS.

Absence of public records.—Any inquiry into marine insurance will soon reveal an appalling lack of public records indicating the real status of the business. The published statistics of all State insurance departments, as far as summarized totals are concerned, deal only with "marine and inland" insurance combined. As a result the aggregates reported by the departments are very misleading, since they include various forms of "inland" insurance, such as motor-vehicle and tourist-baggage insurance, and have been responsible largely for many of the erroneous views, widely circulated in the last year or two, tending to show the prosperous and growing condition of American companies. It is comforting to know that the leading insurance department—that of New York—recognizes the deficiency and contemplates the introduction of important changes for the year 1921. But for the present the Subcommittee on the Merchant Marine and Fisheries found itself greatly handicapped in conducting its recent investigation of marine insurance.

To ascertain the real importance of marine insurance in the United States it was necessary to separate the various forms of "inland" insurance from the totals for "marine and inland" insurance through an analysis of the published records for the individual companies and, where this was impossible, through correspondence with the companies themselves. In fact, it was only through correspondence that one could even ascertain the number of American and foreign companies transacting marine insurance in the United States. No records could be found which differentiated the volume of the business into hull and freight, cargo, and builders' risk insurance, or which indicated the volume of marine insurance applicable to the foreign trade as distinguished from that applying to coastwise and inland waters. Moreover, no records were available to indicate the volume of reinsurance placed with foreign companies; the amount of insurance reinsured by American companies, or by the branch offices of admitted foreign companies, with nonadmitted foreign companies; or the amount of marine insurance originating abroad and reinsured by foreign underwriters in American companies.

Owing to the dearth of records the committee was obliged to obtain its information along nearly all of the aforementioned lines through a detailed schedule of inquiries¹ submitted under date of August 1, 1919, to all American and foreign companies transacting business in the United States. The questionnaire contained 17 separate inquiries especially designed to ascertain the extent of consolidation among the companies; the degree of cooperation between underwriters through conferences, associations, reinsurance pools, and other methods of affiliation; the amount and ultimate destina-

¹ For a copy of the inquiries see Appendix III.

tion of reinsurance; the proportion of the premium income from marine insurance derived by each company from (1) hull and freight insurance, (2) cargo insurance, (3) builders' risk insurance, (4) coastwise and inland traffic, and (5) traffic in the foreign trade; and the reasons for not emphasizing insurance in any one or more of these five categories. The response of the companies to this inquiry was almost universal. The large amount of data obtained has been compiled and the results of this compilation, it is believed, constitute the first comprehensive statement of the present status of marine insurance in this country.

Number and importance of American companies.—Owing to the fact that published State records relate to "marine and inland" business combined, it is common to hear emphasis placed upon the large number of American companies transacting marine insurance. State records indicated a total of 186 marine insurance companies and associations (137 domestic and 49 foreign) transacting "marine and inland" insurance in the United States. To all of these the committee directed its questionnaire, and a brief summary of the situation was published in its hearings (under date of Sept. 25, 1919), in the form of a preliminary report. The facts as there presented were substantially correct, although replies had not yet been received from 12 companies. Subsequent information from these companies slightly changed the figures as originally published, but left all the conclusions unaltered.

Adopting the same form of statement as that used in the preliminary report, the figures explaining the number and importance of American companies are as follows: Replies have been received thus far from all except one unimportant domestic company and two comparatively small foreign companies. After eliminating the items of motor vehicle, tourist baggage, and registered mail insurance, the last two being of minor importance, it appears that only 127 companies and associations transacted marine insurance in this country during 1918, and of this number 40 were foreign companies and associations and 87 domestic. But of the 87 domestic companies 13 are not direct-writing companies and receive all of their business as reinsurance from other companies; 2 are direct-writing companies but reinsure all their business; 1 transacts only an insignificant amount of builders' risk insurance; 3 recently discontinued writing marine insurance; 3 have been merely organized and have not yet begun the transaction of business; and 6 confine themselves solely to inland and coastwise waters and transact no ocean marine insurance. In other words, it appears that there were only 62 direct-writing American companies participating in ocean marine insurance during 1918, and 68 if both internal and foreign commerce are considered. But of the 62 direct-writing American companies, 6 are controlled by foreign companies through stock ownership or a common management, while at least 4 more share a very intimate and sympathetic relation to foreign interests by virtue of having directors or leading stockholders resident abroad, or by having a management very closely affiliated with the management of foreign companies operating in this country, together with reinsurance agreements with said foreign companies covering a very large proportion of the total business written. Two additional American companies, newly cre-

ated and not yet writing business, it should be added, are also foreign controlled.

But the danger of emphasizing the number of American marine companies is further revealed by the extent to which a few transact the lion's share of the business. Of the uncontrolled American companies, 2 receive nearly one-fourth of the total net premium income received by all the companies from actual marine insurance, after deducting the motor vehicle, tourist baggage, and registered mail business; 5 over four-tenths; 10 nearly two-thirds; and 15 three-fourths. To show the small way in which many of the American companies participate in marine underwriting, it may be stated that 14 uncontrolled companies derived during 1918 less than a combined total of 1 per cent of the entire net premium income of all uncontrolled American companies from actual marine insurance; 26 companies received a total of only 4 per cent; and 36 companies (about one-half of the total number) only 8 per cent.

Moreover, of all the 87 American companies only 11 confined themselves to marine insurance, and 5 of these are foreign controlled or very closely affiliated by management and reinsurance arrangements. Of the uncontrolled companies, approximately one-fifth derived 96 per cent of their total net premium income from fire insurance and from inland insurance other than marine; one-half, at least 90 per cent; two-thirds, at least 80 per cent; and three-fourths, at least 70 per cent. Excluding the 10 leading companies, all the remaining uncontrolled American companies received approximately only 10 per cent of their net premium income from marine insurance, while 5 per cent was received from motor-vehicle, tourist-baggage, and registered-mail insurance, and 85 per cent from fire and its allied forms of insurance.

Attention should also be called to the noticeable tendency on the part of American companies to form groups through interlocking directorates, direct ownership, or indirect ownership through some finance or securities company. At least 12 instances exist where two or more uncontrolled American companies transacting marine insurance are thus united. In various instances also the marine departments of a number of companies—in one instance 7 companies and in another 12 companies—are represented in common by a single agent or manager. The reasons for such grouping may be many, but several were especially emphasized by witnesses appearing before the committee during its recent investigation. In some instances one company, having about reached the limit of its possibilities as to volume of business in a given territory, would create or acquire a sister company, and by placing it in the same territory would be able to draw out of that territory a much larger income than would otherwise be possible. In other instances the laws of certain States forbade one insurance company owning stock in another insurance company, and to comply with such laws a company already owning stock in another company would have this stock transferred to a securities company, the stock of which, in turn, was owned by the insurance company making the transfer. Attention was also repeatedly called to the dearth of able marine underwriters in the United States, and this factor, together with the desire of becoming affiliated with some agency or managing

office that had already developed its underwriting facilities, probably accounts for the tendency of uniting the operating end of the marine departments of a number of companies.

Volume of marine insurance written.—Marine risks written and renewed during 1918 by all companies, domestic and foreign, operating within the United States, amounted to \$66,080,295,060. This total was arrived at after making an approximate deduction for motor-vehicle, tourist-baggage, and registered-mail insurance on the basis of premium income received from these sources as compared with the total premium income on all "marine and inland" business. This method, it is conceded, is somewhat subject to criticism, but premium figures constituted the only data available, and, in any case, one uniform plan for making the deduction was applied to all companies. Of the foregoing total, branch offices of admitted foreign companies wrote or renewed \$38,613,473,250, or 58.4 per cent; American companies controlled abroad through stock ownership \$3,275,101,386, or 5 per cent; and other American companies \$24,191,720,525, or 36.6 per cent.

After deducting motor-vehicle, tourist-baggage, and registered-mail premiums, the net marine premiums of all American and foreign companies operating in the United States aggregated \$109,729,041 for 1918. Of this total, branch offices of admitted foreign companies received \$39,437,387, or 35.9 per cent; American companies controlled abroad through stock ownership \$1,555,128, or 1.4 per cent; and all other American companies \$68,736,526, or 62.7 per cent. Similar compilations were made as regards both net premiums and risks for the years 1917 and 1913. Substantially the same relative importance of American and foreign companies was found to exist, although the total volume of business for 1918 had, of course, expanded enormously as compared with 1913. But, as already noted, there are a number of important American companies which, although not actually controlled in a legal sense, are very intimately related to foreign interests by virtue of having officers, directors, or leading stockholders connected with foreign companies, or by having a management very closely affiliated with the management of foreign branches operating in this country. Consideration of these companies in the above figures would materially change the percentages, since net marine premiums of these companies, after deducting motor-vehicle, tourist-baggage, and registered-mail insurance, aggregate no less than \$6,483,373, or almost 6 per cent of the total net marine premium income of all American and foreign companies operating in the United States. Nor do the above statistics reflect the total marine insurance originating in the United States. The committee received estimates from competent underwriters to the effect that at least 20 per cent of all marine insurance originating in this country is exported directly abroad by brokers and others to be placed with nonadmitted underwriters or with the home offices of admitted foreign companies. Such exported business, however, does not appear in any of the reported data on this side, and of course is unavailable to the committee. Competent estimates of the practice, when combined with the percentages already stated, serve still further to show the appalling extent to which foreign underwriters have their grip upon marine insurance originating in this country.

Extent of reinsurance.—All reinsurance figures, as published by the State insurance departments, unfortunately relate to the combined item of "marine and inland" insurance, and it was found impossible to ascertain to any reliable degree the total amount of reinsurance applying to marine insurance proper. But the figures available for the combined item will nevertheless illustrate forcibly the great importance of reinsurance. For all of the 87 American marine insurance companies gross "marine and inland" premiums for 1918, after deducting returned premiums, amounted to \$158,996,523, and of this amount \$65,882,233, or 41.5 per cent, was reinsured with other companies, both domestic and foreign. For the 40 alien companies with branch offices in the United States the percentage is almost the same, and the showing relates almost wholly to marine insurance proper, since for all these companies motor-vehicle, tourist-baggage, and registered-mail insurance was comparatively small, the net premiums aggregating only \$2,264,606 out of a total gross marine and inland premium income of \$71,898,000. Of this total, \$30,196,000 was reinsured with other companies, or 42.1 per cent. Stated in another way, the amount of business reinsured by American marine companies amounted to 71 per cent of the amount retained, while for the branches of foreign-admitted companies the amount reinsured was equal to 76.5 per cent of the amount retained.

As previously explained, 13 of the 87 American companies, operating in 1918, were not direct-writing companies and received all their marine business as reinsurance from other companies, while two were direct-writing companies but reinsured all their business with other underwriters. Moreover, as will be explained in the next chapter, many American companies, partly through choice and partly through necessity, place a very substantial part of their reinsurance with nonadmitted foreign underwriters.

The extent to which marine underwriters limit their normal line of risk is further indicated by the replies to the New York Insurance Department's annual request from each company for a statement of the "largest net amount on any one hazard." Seventy-six of the 87 American companies referred to in this report answered that question for the year 1918, although the statements relate to both fire and marine business. Nine of these companies assumed a maximum risk of only \$10,000 or less; fifteen \$20,000 or less; twenty-six \$30,000 or less; twenty-nine \$40,000 or less; forty-two, or over one-half, \$50,000 or less; fifty \$75,000 or less; and fifty-nine \$100,000 or less. Only 17 of the 76 companies carried more than \$100,000 on any one hazard, and these invariably represented the stronger companies. Only 21 of the foreign companies referred to in this report seem to have answered the department's inquiry, but the information available is probably representative and, unlike the figures for the American companies, relates almost exclusively to marine insurance. For 16 of these 21 companies the largest net amount on any one hazard is placed at \$50,000 or less, while in 10 instances, or one-half of the number, the limit is \$25,000 or less.

Financial standing of the companies.—At the close of the year 1918 the 87 American marine and fire-marine companies had an aggregate capital of \$88,816,118, a surplus (exclusive of capital) of \$170,185,251, a total surplus to policyholders (capital and surplus

combined) of \$259,001,369, and admitted assets of \$647,181,964. These figures, of course, relate both to fire and marine insurance and can not be segregated with reference to each form of insurance separately. It should also be noted that relatively few companies represent the larger portion of the figures here presented. Only 13 of the companies had a capital of \$43,700,000, or nearly one-half (49.2 per cent) of the total for all 87 companies. Their surplus, over and above capital stock, was \$102,953,086, or nearly 61 per cent of the total for the 87 companies; their surplus to policyholders (including capital stock) was \$146,653,086, or nearly 57 per cent of the grand total; while their admitted assets totaled \$368,695,363, or 57 per cent of the assets possessed by all the companies. During 1918, 122 fire insurance companies transacting business in the State of New York, with a capital stock of \$30,529,687, a surplus to policyholders of \$92,876,013, and admitted assets of \$168,268,405, were not participating in any way in the marine insurance business of this country.

Turning next to the financial standing of the 40 branches of foreign admitted companies transacting marine insurance in the United States, it appears from the reports of State insurance departments that their surplus to policyholders in this country is \$22,428,925, and their total admitted assets \$45,952,782. During 1918, however, these foreign branches, besides writing net marine and inland premiums of \$41,701,994, also wrote nearly \$66,000,000 of net fire premiums. But it is very important to remember that the home offices of these foreign companies have in nearly all instances pursued a policy of accumulating huge surpluses, and that with very few exceptions all the assets of each company (other than life insurance funds) are liable for payment of losses wherever incurred, including the United States.

The financial position of nearly all the British marine companies—

According to a former statement from the Statist—

is of such strength that even an unusually long period of adversity could be faced with equanimity. By a long process of eliminating dividends, they have acquired funds so large that policyholders are most adequately secured, while at the same time the interest earnings are sufficient, or nearly sufficient, to provide for the maintenance of the present rate of dividends. Thus even very moderate trade profits are amply sufficient to steadily increase the financial security. * * * In fact, the financial position of most of the offices is so strong that temporary profit fluctuations may be disregarded, and in many cases present dividends could be maintained even if the companies undertook no more business whatever.

Thus the 22 British companies writing marine insurance in the United States through branch offices had an authorized capital at the close of 1917 of \$191,526,239, of which \$178,152,655 (or 91 per cent) was subscribed and \$48,973,500 (or 25.5 per cent) actually paid in. The total assets of \$856,209,296 seem extraordinarily large for so small a number of companies, but the figure is misleading, since a considerable number of the companies carry life insurance policies with their rapidly increasing reserves. The net surplus of this limited number of companies, however, is worthy of note, since it reaches the huge total of \$162,380,829.

Classification of the business.—As regards the classification of American marine insurance into the respective proportions applying to

coastwise and inland traffic and to traffic in the foreign trade, and to hulls and freight, cargoes, and builders' risks, no public records of any sort were obtainable. Accordingly the committee, under date of August 1, 1919, requested all the companies to furnish an analyzed statement for the year 1918 of (1) the portion of their total premium income from marine insurance derived from coastwise and inland traffic and from traffic in the foreign trade, and (2) a similar statement of their premium income from marine insurance derived respectively from hull and freight insurance, cargo insurance and builders' risk insurance. A number of companies unfortunately had not kept their records with a view to any detailed classification of the kind suggested and expressed their inability to separate their business as requested. The great majority of companies, however, including all the leading ones, furnished the information, although in some instances the figures were given as only approximately correct. Owing to the time required for the compilation, many of the companies' returns were considerably delayed, and accordingly the committee's preliminary statement of the situation, as per the information received by September 25, 1919, requires some modification in view of subsequent returns.

Business derived from (1) coastwise and inland traffic, and (2) traffic in the foreign trade.—Seventy-two of the 87 American companies furnished an analysis of their business on this basis of classification, and an overwhelming majority derived their largest premium income from traffic in the foreign trade. Only 9 companies received 50 per cent or more of their marine premium income from inland and coastwise traffic, and of these companies 6 confine themselves entirely to inland and coastwise risks, while one other company derived 96 per cent of its marine income from this source. Sixty-three of the returns indicate that 50 per cent or more of marine premium income is derived from traffic in the foreign trade. In 4 instances the percentage ranges between 50 and 59 per cent; in 7 between 60 and 69 per cent; in 13 between 70 and 79 per cent; in 23 between 80 and 89 per cent; in 5 between 90 and 94 per cent; in 8 between 95 and 99 per cent; while in 3 instances all marine insurance applied to traffic in the foreign trade.

For branch offices of foreign admitted companies a similar showing presents itself. Thirty-five of the 40 alien companies transacting marine insurance in the United States furnished an analysis of their business to the committee. Of these, 3 derived all their marine premium income from traffic in the foreign trade during 1918; 7 between 95 and 99 per cent; 4 between 90 and 94 per cent; 14 between 80 and 89 per cent; 3 between 70 and 79 per cent; 3 between 60 and 69 per cent; and one 51 per cent. In other words, all except four of these companies received over 70 per cent of their marine income from traffic in the foreign trade, and all except seven received over 80 per cent.

Cargo insurance.—Replies to the committee's questionnaire clearly indicate that American companies cater primarily to cargo insurance and do not, as a general proposition, emphasize hull insurance. A number of companies expressed their inability to separate their business into respective proportions for hull and freight, cargo, and builders' risk insurance. Seventy-two American companies have

furnished the committee with a detailed classification of their business for 1918. Of these 72 companies, 4 transacted no hull and freight insurance at all; 12 derived less than 10 per cent of their total marine premium income from hull and freight insurance; 19 less than 15 per cent; 25 less than 20 per cent; 43 (considerably over one-half the total number) less than 33 per cent. Only 20 of the entire number derived 50 per cent or more of their marine premium income from hull insurance. Almost all of these companies received nearly all of the balance of their marine premium income from cargo insurance. Much the same situation is also revealed by the reports furnished the committee by the American branch offices of foreign admitted companies. But the committee has been advised by competent underwriters that the practice of exporting marine insurance directly to the foreign market is resorted to particularly in the case of hull insurance. Some of these estimates are to the effect that at least 50 per cent of all American hull insurance is thus exported.

Hull insurance.—The unsatisfactory condition surrounding hull insurance is freely confirmed by American companies in their replies to the committee's questionnaire. Fifty-nine of the 72 American companies already referred to report that they do not emphasize hull insurance; 19 companies explain that they have found their hull business to be unprofitable; 9 state that they do not emphasize hull insurance and write it very sparingly because of the hopeless outlook for this class of business at the time they began writing marine insurance; 14 report that they found only a small profit in hull insurance in prewar times, while at present the situation is still less hopeful because the enormous increase in the cost of repairs and salving has been accompanied by little or no increase in premiums over those of prewar years; and 20 state that competition of companies located in foreign countries, and the facility with which owners and brokers export marine insurance to such countries, precludes any hope of success. Several companies report that they are endeavoring to reduce their hull business, and one important company explains that its hull business, instead of constituting 72 per cent of its whole business as in 1918, will be around 25 per cent only in 1919, since it is materially curtailing this class of business on account of competition with the foreign insurance market, which escapes all Government and State taxes. A number of companies also express the view that if the Government would insure at least a portion of the hull values it controls with American companies material benefit would result through an increased spread of business.

Builders' risk insurance.—The situation explained for hull insurance is practically duplicated in the field of builders' risk insurance. A number of companies again expressed their inability to separate this class of business; but 69 American companies have furnished the proportion of their premium income from marine insurance derived from builders' risk insurance. Eleven reported that they transacted no such business during 1918; 6 received merely the pittance of one-half of 1 per cent of their marine premium income from this source; 10 between one-half of 1 and 1 per cent; 16 between 1 and 2 per cent; 8 between 2 and 3 per cent; 3 between 3 and 4 per

cent; 4 between 4 and 5 per cent; 1 between 5 and 6 per cent; 5 between 6 and 7 per cent; 1 between 8 and 9 per cent; 3 (two of which are foreign owned) 10 per cent; 1 (an American company) 12 per cent; and another (a foreign owned company) 34 per cent. Seventeen companies (one-fourth of the total number reporting) received one-half of 1 per cent or less of their marine premium income from builders' risk insurance; 27 (one-third of the total number) 1 per cent or less; and 51 (nearly three-fourths of the total) only 3 per cent or less. Here, again, much the same situation is shown by the reports received from the American branch offices of foreign companies. But, as in the case of hull insurance, the committee has been advised by competent underwriters that the practice of exporting insurance directly to the foreign market is also resorted to very largely in the case of builders' risk insurance.

Even in the case of naval vessels in course of construction for the United States Navy, from one-half to three-fourths of the required builders' risk insurance is placed with foreign companies, including those having United States branches. The reasons assigned why a greater volume of business is not placed in American companies are the limited number of such companies, the limited capital invested in marine departments of these companies, and the extreme congestion of values at risk, owing to the large value of individual vessels and the fact that a number are being constructed at the same time in the same yard. Efforts were made not long ago to place all the required insurance in the home market, but a careful canvas revealed that, while this market had expanded somewhat, the increase in the cost of naval construction had kept pace with the expansion, so that in reality American companies were no better prepared to underwrite the construction risks of the Navy than they were a decade ago. In the case of large battleships and battle cruisers, it even happened that the world market was unwilling to assume the entire risk (sometimes the willingness extended to only half the values involved), thus making the Government a coinsurer in case of total losses or for losses in excess of the amount that could be placed with underwriters.

As in the case of hull business, American companies freely confirm the unsatisfactory conditions surrounding builders' risk insurance. Fifteen companies state that the field has been greatly restricted through the operations of the insurance fund of the Emergency Fleet Corporation of the United States Shipping Board; 20 companies report that they do not emphasize such insurance because they see no opportunity of securing any business except at unprofitable rates; nine explain that when they began writing marine insurance they found that builders' risks were almost wholly going to companies located in foreign countries, because, among other reasons, such companies may assume hazards which are forbidden to American companies by the laws of the various States in this country; and nine report that companies in foreign countries, who escape taxes and other expenditures which American companies must meet, seem anxious to have the business at rates which they (the American companies) would find unprofitable.

CHAPTER III.

EXTENT OF FOREIGN CONTROL.

Control of American companies.—As explained in the previous chapter, 6 of the 62 direct-writing American companies, participating in ocean marine insurance during 1918, are controlled by foreign companies through stock ownership. All of these companies (group 1 for purposes of later reference) are controlled by British interests, and the stock ownership is almost complete, amounting to over 99 per cent of the shares in all cases except one where the number of shares owned amounts to nearly 98 per cent of the total. Two of these companies, it is interesting to note, placed 100 per cent of all their reinsurance with foreign companies; three more placed, respectively, 67, 64, and 55 per cent in this manner, while one, without stating the percentage, explains that it reinsures a share of all its business (on the basis of a fixed division) with the United States branches of six British companies operating with it under the same joint management. Two other American companies, newly created and not yet writing business at the time of the committee's investigation, are also foreign owned, one by British interests and the other by Russian. In the latter case, however, information is to the effect that, owing to the chaotic state of affairs in Russia, the management of the new company is expected to Americanize the American branch of the foreign parent company by taking over all of its business.

Four additional companies (group 2 for purposes of later reference) clearly have strong foreign affiliations, although it is not meant to imply that there is any foreign control legally. These four companies operate under one underwriting agency, and all issue a policy in which each of the other companies participates. Three of the companies also have, in the main, a common management. One of the companies has four directors and four of its leading stockholders resident abroad; another has three foreign marine insurance companies among its leading stockholders; while the remaining two also have foreign interests represented in their directorates and among their leading stockholders. Moreover, approximately three-fourths of all the reinsurance of these companies was placed with foreign underwriters during 1918.

Beyond the 12 companies referred to, approximately one-fifth of the direct-writing companies engaged in ocean marine insurance, no further direct affiliations with foreign companies are indicated by the returns to the committee's questionnaire. In a number of instances (group 3 for purposes of later reference) the marine departments of very important American companies are managed by the same interests that manage the United States branches of important groups of foreign companies. Where such joint management exists, it was found to be a general practice to effect reinsurance arrangements for an exchange of business, on a share basis,

between all the companies in the office. As a result some of these companies place an exceedingly large proportion (in three important instances 76, 91, and 92 per cent, respectively) of their total reinsurance with foreign companies. But the managements in these cases have insisted strenuously to the committee that such joint management in no sense implies foreign control or affiliation, that the American companies in question remain independent in their conduct, and that foreign interests have exerted no pressure in any respect.

Distribution of business between American and foreign companies.—As pointed out in the previous chapter, total marine-insurance risks written and renewed during 1918 by all companies, domestic and foreign, operating in the United States amounted to \$66,080,295,060, after making an approximate deduction from the published "marine and inland" figures for motor-vehicle, tourist-baggage, and registered-mail insurance. Total net marine premium income, after making a similar deduction, aggregated \$109,729,041. Presented in tabular form, and including only American companies composing groups 1 and 2 (referred to above), the extent of foreign control as regards the above totals may be indicated as follows:

	Risks written and renewed.		Net marine premiums.	
	Amount.	Percentage of total.	Amount.	Percentage of total.
United States branch offices.....	\$38,613,473,250	58.4	\$39,437,387	35.9
Companies comprising group 1.....	3,275,101,386	5.0	1,555,123	3.4
Companies comprising group 2.....	586,103,138	.9	1,176,489	1.1
Total.....	42,474,677,774	64.3	42,169,004	38.0

Similar compilations for the years 1917 and 1913, as regards both net premiums and risks written and renewed, show substantially the same relative importance of American and foreign companies. The volume of business for 1918 and 1917, however, increased enormously as compared with 1913, owing mainly to greatly increased values, an increased volume of traffic, and double insurance on many risks, i. e., once to cover the marine hazard and again to cover the war risk. An examination of the aforementioned figures at once calls attention to the striking difference in the showing for risks written and renewed as compared with that for net premiums. In the case of risks written and renewed the extent of foreign control is 64 per cent (nearly two-thirds), while in the case of net premiums it is only 38 per cent. According to leading underwriters this difference is mainly accounted for by the fact that British companies are keen competitors for what might be called the choicest classes of business on which the rates of premium are very low. Shipments of gold and specie, which are generally classed separately from registered-mail insurance, constitute an example of this kind. But there are numerous other lines of merchandise, such as copper bullion, etc., where the values are very great and where British companies seem to be able to handle such large amounts in one transaction that American companies have had little opportunity to secure any of the business. The effect of such classes of cargo upon

the whole business would be to show a much lower average rate of premium when measured by the gross amount insured. American companies, it is asserted, generally have a larger amount of higher-rated business, whereas British companies ordinarily will not write what are commonly described as rough risks. It has also been suggested that American companies probably have a smaller admixture of exceedingly low-rated business than the British.

From the standpoint of net premium income—the most favorable showing by far—it would appear that uncontrolled American companies wrote, during 1918, considerably over half of the marine insurance transacted in the United States. But, as previously pointed out, the committee has received estimates from competent underwriters to the effect that at least 20 per cent of all marine insurance originating in the United States is exported (cabled) directly abroad by brokers, shipowners, merchants, and others to be placed with nonadmitted underwriters or with the home offices of admitted foreign companies. Some of the estimates place the percentage of such exported insurance at 25 to 30 per cent. Assuming only 20 per cent and applying this to the net premium income collected in the United States (\$109,729,041), it would appear that on the basis of premiums foreign interests control American marine insurance to the extent of at least 58.5 per cent. If 25 per cent is assumed, and this is probably nearer the truth, the extent of foreign control would be nearly 63 per cent. Moreover, as will be pointed out in the next section, American companies received some five millions of premiums during 1918 on marine insurance originating abroad and reinsured or directly assigned to them by foreign underwriters, this amount appearing in their published statements, although not representing American business.

Reinsurance with admitted and nonadmitted foreign companies.—Another indication of the importance of foreign influence is found in the extent to which American companies reinsure with foreign companies. To ascertain these data, the committee conducted a correspondence with all domestic and foreign companies operating in the United States. Thus far the desired information has been obtained from 69 of the domestic companies. Twenty of these companies (all comparatively small, except two) advised the committee that none of their reinsurance was placed with alien companies, either admitted or nonadmitted. Of the remaining 49 American companies, 6 placed 10 per cent or less of their total reinsurance during 1918 (based on premiums) with foreign companies; 2 between 11 and 20 per cent; 3 between 21 and 30 per cent; 4 between 31 and 40 per cent; 11 between 41 and 50 per cent; 3 between 51 and 60 per cent; 9 between 61 and 70 per cent; 6 between 71 and 80 per cent; 2 (one of which ranks among the very largest American companies and which reinsured 60 per cent of its enormous business) 91 and 92 per cent, respectively; and 3 (one of which is foreign owned) 100 per cent. Stated in another way, 27 of the 49 companies placed 50 per cent or more of their total reinsurance with foreign companies, while 20 placed 60 per cent or over. Based on premiums, the reinsurance placed with foreign interests by the 49 American companies referred to amounted to slightly over one-half their total reinsurance with all companies (foreign and do-

mestic combined), and to nearly 43 per cent of the total reinsurance (with foreign and domestic companies combined) placed by all of the 69 companies reporting to the committee.

With reference to the United States branch offices of the 40 admitted foreign companies, the committee received detailed information from 31, three of the companies failing to send any information and six omitting to give their reinsurance with other foreign branch offices operating with them under the same joint management. Of the 31 companies referred to, 10 (all, except one, having little or no reinsurance) placed no reinsurance with other foreign companies during 1918; two (also with very little reinsurance) placed 10 per cent or less of their total reinsurance with foreign companies; two, between 11 and 20 per cent; one between 21 and 30 per cent; one between 31 and 40 per cent; three between 41 and 50 per cent; six between 51 and 60 per cent; two between 61 and 70 per cent; one between 71 and 80 per cent; one between 81 and 90 per cent; and two 100 per cent. It is interesting to note that these 31 foreign companies placed 54 per cent of their total reinsurance with other foreign companies, and only 46 per cent with American companies, including those under foreign control. But the absolute amount thus reinsured with American companies, it is important to bear in mind, is considerably less than one-half of the reinsurance placed by American companies with foreign admitted and nonadmitted companies.

Reinsurance by American companies with foreign companies, it should be explained, is by no means limited to the branch offices of admitted companies. Thirty-six American companies, which reported to the committee on the matter, placed reinsurance during 1918 with nonadmitted companies or with the foreign offices of companies possessing branches in this country, to the extent of \$10,421,787 of premiums, and named 68 nonadmitted foreign companies, located in 10 different countries, with whom such reinsurance was placed. Of these companies, three placed all their reinsurance with nonadmitted companies or with the foreign offices of admitted companies; two between 71 and 80 per cent; two between 61 and 70 per cent; three between 51 and 60 per cent; one between 31 and 40 per cent; three between 21 and 30 per cent; nine between 11 and 20 per cent; and thirteen 10 per cent or less. It appears, moreover, that American companies give much more reinsurance to nonadmitted companies, or the foreign offices of admitted companies, than they receive in return. Only 10 of the aforementioned 36 domestic companies reported any business written abroad and reinsured with American companies. The total thus reported was only \$4,931,976 of premiums as compared with \$10,421,787 flowing in the other direction. But of this five millions, five companies received nearly 92 per cent, and of these companies three share a very sympathetic relation to foreign interests by having directors or leading stockholders resident abroad, while one is under the same joint management that manages the American business of three important foreign companies.

Source of foreign strength.—When foreign interests control two-thirds of so vital a business as marine insurance, there must be weighty reasons which account for the phenomenon. These reasons

are not far to seek and were fully developed during the committee's hearings. Their existence, unfortunately, had never before been given any publicity worthy of the name, and to this lack of publicity and, consequently, of a proper understanding of the problem may be attributed the continued existence during many years of the present appalling situation. The regrettable fact about it all is that many of the serious obstacles that must now be overcome to effect a radical change were quite unnecessary and of our own making or due to our own indifference. The present sources of foreign strength are numerous, and in enumerating them special reference is had to the underwriting facilities of Great Britain, which exceed by far all other foreign insurance interests in the American market. Briefly described, the leading advantages enjoyed by foreign underwriters, as compared with our own, are the following:

(1) *A world market of long development.*—British underwriters not only furnish the largest marine insurance market of the world, but British companies have consciously pursued a policy, extending over many years, of strengthening their position by the accumulation of huge surpluses. The marine insurance market of the world, in fact, centers in London and Liverpool. The companies of these centers have their correspondents all over the world and thus possess the best sources of information. American companies, it was generally conceded during the committee's hearings, must ask London for information as to prevailing conditions in the marine insurance markets of other nations. To hold their American interests, British companies have also pursued a high standard in the prompt and full settlement of claims. Their record in this respect has been excellent with the result that many business men have acquired the habit of always insisting on an English policy. A considerable volume of business thus naturally gravitates to the foreign market because of long standing acquaintance between native insured and foreign underwriter. The huge size of the business and its apparent permanency have also attracted a large personnel of trained underwriters and experts capable of handling a form of insurance requiring the most highly specialized training.

(2) *A broader spread and broader reinsurance facilities.*—By establishing themselves in all parts of the world through extensive agency systems, British companies obtain an enormous volume of business and an unequalled diversity of hazard. Through the use of foreign markets they therefore share in the premium income of almost every trade and thus enjoy the benefits of a sufficiently constant and diversified premium income. With so many large and stable companies in existence, the facilities for reinsurance are also enlarged to such an extent as to make possible the underwriting of tremendously large risks. American companies have always been handicapped by a lack of proper reinsurance facilities, and one of the earliest difficulties confronting our companies was the fact that foreign companies, when offered a portion of a risk, would insist, owing to their possession of a broad reinsurance market, on taking "all or none." Such an attitude it was clearly impossible for the smaller American companies to meet.

Volume and spread of business and adequate reinsurance facilities are the essence of marine insurance. Their possession means sta-

bility and power, while their absence spells uncertainty and weakness. British marine insurance companies may be compared to a centipede with its hundred feet placed in all the markets of the world. The loss of one foot will not seriously interfere with the free movement of the others. Loss in one market, possibly deliberately incurred to acquire business or to crush competitors, is lost sight of in the profits made in the markets of England or of other nations. The committee's attention has been called to the present policy of foreign underwriters of writing various classes of American business at lower rates than they do their own or those of other nations, with the object of eliminating American companies from the field. This they can easily do because of the international spread of their business, while American companies are unable to compete because their whole operation is confined to the one limited market upon which the very much stronger foreign competitor is concentrating his fighting abilities. Under such conditions it seems strange that many of our States should have made it unnecessarily difficult for American companies to enlarge their foreign operations. As one prominent underwriter states:

Under present State laws, when an American company makes a deposit of funds as a prerequisite to obtaining a license in a foreign country, under precisely the same sort of requirements as its own home State exacts of a company domiciled in the country where the American desires to trade, the amount of such deposit is taken out of the American company's assets at home. This handicaps an American company transacting business in foreign countries in several ways, one of which is the reduction in the amount which it may write on a single risk. In some States a company may not carry at its own risk more than 10 per cent of its capital, or in others of its capital and surplus or of its assets. Such restrictions hamper a company terrifically.

(3) *A close union with banking and shipping interests.*—Our previous discussion of this phase of British marine insurance makes repetition unnecessary. Banking, shipping, and insurance are complementary factors and can be of mutual assistance to each other. Numerous property and credit connections radiate from the leading shipping and banking interests at all the leading ports of the world, and any insurance growing out of such connections can be delivered easily to affiliated underwriters. English banks throughout the world, as previously explained, have arrangements with English insurance companies whereby they provide insurance for their clients through all the stages of production and shipment. It is largely through this union, as yet scarcely attempted in this country, that British insurance companies have been enabled to give merchants everywhere the convenience of underwriting facilities near at hand, and that they have acquired their present strength and prestige and ability to control competitive situations.

(4) *Freedom to combine or to form communities of interest.*—Not only do British insurance companies cooperate with the nation's banking and shipping interests, but they have united (and have been encouraged by their Government to do so) into large groups through actual consolidation or the formation of communities of interest. By this means they have not only enlarged their underwriting capacity and strengthened their financial standing, but have reduced materially their overhead charges. Combination and working co-operation also facilitate the spread of business and bring about a

greater comity of action. In the United States, on the contrary, State laws are generally unfavorable to insurance companies owning stock in corporations transacting similar lines of business. If American companies would cooperate on a larger scale, especially with respect to reinsurance, not only would much of our business be kept here, but more successful efforts could be made to bring new business to the United States, whereas little is now received in exchange for what we send abroad. Testimony during the committee's hearings clearly indicated that American underwriters support this view, but any suggestion for action under present conditions generally brought the response that "there are jails for law breakers." Legislation permitting groups of American companies to unite in forming and incorporating companies (or comprehensive associations) intended to transact a reinsurance business, or to do direct underwriting in foreign markets, would go a long way toward relieving the present necessity of relying upon foreign markets for reinsurance protection.

Mention should also be made of the fact that it is almost the universal practice among British companies to transact business upon a subscribed capital, only a small percentage of which is actually paid in, while American companies are obliged to have all their capital fully paid. The 22 British companies possessing branch offices in the United States, it will be recalled, had a combined authorized capital of 191½ millions of dollars, 178 millions of which was subscribed, but only 49 millions or one-fourth, was actually paid in. As regards 18 of these companies, the paid in capital was less than that subscribed, amounting in four instances to only about one-half of the subscribed capital; in 2, only one-third; in 2, only one-fourth; in 4, only one-fifth; in 3, only one-seventh; and in 3, only one-tenth.

(5) *Permission to write numerous kinds of insurance.*—British marine-insurance companies have the privilege of writing practically any kind of insurance, and have shown a distinct tendency in recent years to absorb or otherwise combine with casualty, liability, and workmen's compensation companies. The motives are not far to seek. By transacting many kinds of insurance, a company's overhead charges are materially reduced, and it is also placed in the advantageous position of being able to meet the full insurance needs of its clients. Moreover, various forms of insurance complement one another in that bad results in one branch for a series of years are apt to be counterbalanced by good results in some other branch.

Many of the witnesses appearing before the committee expressed a desire for the removal of State restrictions on the kinds of insurance (other than life insurance) which may be transacted by American companies. Prior to 1910 it was the practice at first, and later the law, in the State of New York that insurance companies could not transact more than one class of business, i. e., a fire company could not be admitted to do marine insurance, and a marine company could not be admitted to transact fire insurance. This law ceased to operate on January 1, 1910, and American companies may now transact both fire and marine insurance, but may not do anything else unless their charters provide otherwise. Despite the partial change, however, great harm had been done by the practice during the years it existed. Not only were American marine companies

restricted in their sphere of action but many important fire companies were prevented from getting into the marine insurance business. American marine companies, judging from their answers to the committee's inquiry as to why they did not emphasize certain types of insurance, are prevented by the State law in many instances from writing even such closely allied forms of protection as builders' risk and property and indemnity insurance.

(6) *Ease with which American insurance may be exported abroad.*—Previous pages of this chapter have referred to the large amount of marine insurance originating in this country which is sent directly to nonadmitted companies or the foreign offices of admitted companies, and which, it is claimed, largely escapes the heavy taxes and other onerous burdens imposed upon companies operating within the United States. American underwriters were a unit during the hearings in deprecating this practice, but as a class they are helpless to remedy the situation since the placing of a very large proportion of American business rests with marine insurance brokers, who owe no allegiance to any insurance company and who operate as free lances in the business. Practically all of the large brokerage houses in New York, Philadelphia, and other leading shipping centers have correspondents in London. It is quite general in this country for the insured to rely upon his broker for the placing of his risks, and for one reason or another a large proportion is placed in the foreign market. The committee has even been advised that British, Scandinavian, and other insurance brokers come to the United States periodically to solicit business for placement by them. One witness, the president of an important American company, expressed himself to the following effect:

English insurance brokers have not the same control of the business in their hands as the American brokers appear to have, as they have to place the greater portion of their lines with companies or underwriters favored by the insured who are prepared to pay the rates which the companies or underwriters preferred by them ask. This is one of the reasons which makes it so hard for a new company to break into the English market, as probably 50 per cent of the business given to them is subject to its being placed with particular underwriters. In my experience I have known only one large corporation in America that has always stipulated that all of its insurance shall be placed with American companies. Outside of it, I do not know of a single corporation that takes that stand.¹

(7) *A smaller tax burden.*—Insurance of all kinds, including marine insurance, has always been the subject of unmerciful taxation in the United States. Revenue and ease of collection have apparently been the only real considerations. With reference to marine insurance there appears to have been a complete disregard by the taxing powers of the fact that this form of insurance is essentially national and international in character and that excessive taxation constitutes a severe handicap in meeting foreign competition. Underwriters appearing before the committee were a unit in their condemnation of the existing multiplicity of excessive taxes and fees. At present marine insurance companies are obliged to pay not only a Federal tax of 1 per cent on premiums, in addition to all other Federal taxes imposed on classes of business other than insurance, but are subject to a State tax on premiums (ranging from 2 to 4

¹ Hearings, p. 263.

per cent in the different States) as well as State corporation taxes, municipal taxes, and numerous license fees and other charges. Moreover, the States have different systems of taxations, with the result that there is often double taxation in the sense that both the State where the property is located and the State where the policy is written will tax the same transaction.

The combined effect of all these taxes is appalling when viewed in the light of the profits derived from the business. Thus, taking 10 of the larger American companies writing marine insurance, the taxes paid in 1918 aggregated 8.36 per cent (State taxes 2.45 per cent and Federal taxes 5.91 per cent) of the net premiums written, i. e., of the original premiums less cancellations and reinsurance.¹ The president of one large American company testified that his company's Federal, State, and municipal taxes for 1918 amounted to 36 per cent of its capital,² while the president of another large successful company asserted that 1918 taxes for his company approximated 10 per cent of the gross premium income and pointed out that this was greatly in excess of the company's total profit, its average earned premium amounting to only 5.53 per cent for a series of years.³ American taxation of marine insurance is based essentially on gross premium income, a system which is unscientific to say the least and which can be supported only on the plea of revenue and ease of collection. British taxation, on the contrary, is levied on net profits and recognizes the fact that a premium written may result in a loss, without, however, any consideration being shown under a gross premium tax. Applying the situation to hull insurance, the Association of Marine Underwriters of the United States states the case as follows in its report to the committee:

American companies, together with the agencies of foreign companies regularly entered in the United States, pay taxes on premium income in the United States, whereas their competitors in foreign countries are taxed on net profits. As an illustration, a hull insured for \$100,000 at 5 per cent in the United States pays a tax on the premium of approximately \$200, against about \$25 in England. They are also required to keep substantial reserves and deposits in more than one State for the security of policyholders. A material volume of marine insurance is also placed abroad with companies either not entered in the United States or through the home office of foreign companies which are entered in the United States, thus escaping the payment of taxes imposed upon American marine insurance companies and foreign insurance companies regularly entered in the United States.⁴

(8) *A smaller overhead charge.*—The larger volume of business, the freedom with which foreign companies may combine, the permission to write many kinds of insurance, and the smaller tax burden, all tend, as has been explained, to a smaller overhead charge for the foreign competitor. But reference is had here to another important factor, viz, the foreign companies' lower cost of administration owing to the lower foreign standard of office salaries and expenses. Underwriters appearing before the committee differed considerably in their estimates of the extent to which the foregoing factors reduced overhead charges; but all agreed that a material reduction was effected. The president of one large company testified that he figured the difference in overhead charges between an English and American company to be between 3 and 4 per cent of the

¹ Hearings, p. 268. ² Hearings, p. 180. ³ Hearings, pp. 253-254. ⁴ Hearings, p. 160.

premiums in normal times, and that "this is almost a complete profit because the statistics of my company for nearly 40 years showed, including the interest on our investment, our profit on underwriting would average a little over 5 per cent a year."¹

(9) *Support of home merchants and vessel owners.*—In addition to the foregoing sources of strength, mention should be made of the support which foreign merchants and vessel owners usually accord to the marine underwriters of their own country. Foreign consignees have a great deal to say as to where insurance shall be placed, and have shown a marked disposition to favor their own home companies. Underwriters appearing before the committee were a unit in emphasizing the importance of this attitude. The committee, it may be stated, has even been advised that British banks, cotton exchanges, and other commercial organizations are now combining in requiring American exporters to cover their shipments of certain leading classes of cargo with policies issued by British companies. With few exceptions American merchants, on the contrary, have not yet been prompted by such a desire to patronize home companies. As a rule they simply look at the cost, take the policy the broker hands them, and manifest little interest in the question of whether or not the insurance is placed in an American company. They look upon marine insurance as a mere commodity rather than as a service. Underwriters were a unit in asserting before the committee that the American public needs to be educated in the importance of patronizing home companies. The remedy seems to lie in a campaign of education, not only on the part of those in the insurance business, but by chambers of commerce, boards of trade, merchants trade organizations, etc.

¹ Hearings, p. 166.

CHAPTER IV.

REINSURANCE AGREEMENTS.

Importance of reinsurance.—Having explained the economic value of marine insurance, its volume and classification, and the extent to which it is under foreign control, we may next discuss three other fundamental phases of the subject which received much emphasis throughout the committee's recent hearings. Reference is had to reinsurance, underwriters' associations, and rate making. Of these reinsurance attracted the greatest attention. The practice, as discussed by the witnesses, seems to be inseparably intertwined with all the practical operating phases of the marine insurance business, and the concensus of opinion seemed to be that we must have a large reinsurance market of our own if American marine insurance is ever to attain a degree of usefulness and independence commensurate with our position as a commercial nation.

The extent of reinsurance has already been presented statistically, and the figures can not fail to indicate the supreme importance of the subject in the field of marine underwriting. Were it not for reinsurance, a very considerable number of the smaller and less well-known American companies would soon disappear from the field because of their inability to obtain adequate direct lines themselves. Some of the largest companies advised the committee that they, individually, have in force over 100 reinsurance contracts with other companies. It is also interesting to note that these contracts, involving as they do all sorts of financial arrangements and conditions, are regarded by the contracting parties as highly confidential in nature (so confidential that in nearly all instances copies of the agreements were deposited with the committee only on promise of confidence), and are jealously guarded against falling into the hands of competitors.

Recent years have seen a considerable growth in the reinsurance facilities available in the American market, and it has been asserted by underwriters that a line of at least \$1,000,000 can be covered without much difficulty. But despite this recent improvement, a very large share of the reinsurance effected by American companies is, as we have seen, placed with nonadmitted companies, or with the branch offices of admitted alien companies. This is done largely through necessity, although much of the practice is traceable to choice because favorable reinsurance agreements have been effected with foreign underwriters. Improvement in this respect, especially where reinsurance with foreign underwriters is prompted by necessity, can be brought about only by enlarging our reinsurance facilities at home. It is, therefore, a pity that past legislation by the several States has been such as to place serious disabilities in the way of creating adequate reinsurance facilities. The sooner such unnecessary handicaps are eliminated the better. Emphatic support was also given by most underwriters to the advisability of in-

roducing legislation which will permit the creation of associations, pools, or combinations for the purpose of (1) reinsuring or otherwise distributing risks on hulls, cargo, or other interests, and (2) of transacting an insurance or reinsurance business in foreign countries. Still other underwriters expressed themselves in favor of legislation permitting the organization of reinsurance companies in the District of Columbia under favorable conditions. In view of the interest that is being manifested in the subject, it is advisable to outline the nature of and the reasons for reinsurance. It is only through a proper understanding of the subject that its fundamental importance can be appreciated; and it is only through the proper appreciation of its importance that we can hope for a removal of present legislative disabilities.

Definition and general purpose.—Reinsurance may be defined as the practice whereby one underwriter (the original insurer) transfers his liability under a policy, either in part or in whole, to some other underwriter (or a group of underwriters) known as the reinsurer. The contract of reinsurance is made solely between the underwriters, the insured possessing no right to make a claim against the reinsuring company in case of loss. From an economic standpoint, however, the insured is vitally interested in the practice. It should always be borne in mind that the original company, if of ordinary size, usually retains only a limited amount of the liability involved on any large risk that may have been placed with it, and transfers the balance to other reinsuring companies. No matter how large the policy, the property owner must look to his original insurer for the payment of a loss. Yet the size of the risk assumed may be altogether too large for the carrying capacity of the company with which it was originally placed, and reinsurance of the risk may be assumed by the insured as a measure of ordinary protection. But since the original insurer depends upon the reinsuring companies for the payment of their share of any loss, it follows that merchants and vessel owners are vitally concerned in the financial strength of the reinsuring companies. As a matter of fact, these companies have insured the insurance placed with the original company, and failure on their part to meet a loss may in turn cause the direct-writing company to fail in meeting its liability to the insured. It is, therefore, highly desirable that property owners, when placing a large policy with an underwriter, should make inquiry as to the reinsurers with a view to ascertaining their financial standing.

The fundamental purpose of reinsurance is to give underwriters the benefit of the greater certainty that results from a proper application of the law of average. By spreading their liability over a large number of risks, and retaining only a moderate amount in each instance, they succeed in stabilizing their business. Each company is enable to accept policies for large amounts and yet can protect itself against staggering losses by adjusting its risks in such a manner as to preclude the possibility of any serious inroad into its capital and surplus.

To assume and maintain a \$1,000,000 risk is obviously unbusiness-like, because a total loss of this single venture might more than wipe out the entire annual profit on all the other business of the company. But by accepting many risks, and by scaling down all those

that are larger than the normal carrying capacity of the company justifies, certainty in business is substituted for uncertainty. A wide distribution of comparatively small risks produces a more certain income and eliminates the element of gamble. A regular trade profit is assured with reasonable stability from year to year. Without reinsurance on a large scale the risks assumed by a given company must necessarily be restricted in number and be uneven in amount. With reinsurance, however, one company will give its excess lines to other companies, and they in turn will give their excess lines to it, with the result that all the companies will enjoy an adequate total volume of business, consisting of a large number of risks all limited properly as to the extent of the liability involved. As one witness stated in the recent marine insurance hearings:

The bulk of the business counts for a great deal in marine insurance. I am spreading the losses which will occur, over a large number of individual risks on which no loss will occur, in order to take care of those risks on which losses do occur. If I have only a small number of risks, the probability is that I shall have more losses on a small income than that income will pay. Suppose, for instance, that there are bound to be 10 total losses in the year. If I have only 100 risks I might have 5 out of these 10 losses. But if I have a thousand risks I may have the full 10 losses, yet I have increased my premium income without increasing my loss outgo in the same ratio.¹

Other advantages resulting from reinsurance.—Various other reasons make reinsurance an absolute necessity for the convenient conduct of modern business. Mention should be made of the increasing frequency with which single large business concerns make shipments requiring the entire carrying capacity of a large vessel, and where, to economize in time and labor, there is a desire to place the insurance with one or a few large companies rather than negotiate the business with numerous smaller underwriters distributed throughout the entire insurance market. Under these circumstances the desire is to place the insurance with the least trouble and annoyance and have the original underwriter assume the work of distributing the large risk among reinsurers. If the risk is a very large one, such distribution may be so extensive as to involve scores of companies. In fact, some of the reinsurers may, in turn, reinsure with other reinsurers until practically all of the leading companies composing the world's reinsurance market are participants in the risk.

Under "open" policies it frequently happens that companies are subject to enormous liability, due to congestion of cargo on board a single vessel or in a single location, which it is impossible to control. This congestion often results from the fact that the cargoes of various shippers, insured by the same company, may happen to be concentrated on a single steamer. It is impossible to estimate how many shipments on a single vessel are covered under various policies of insurance, each in themselves to the limit of the company's capacity. It is also impossible to estimate the amount of risk concentrated in this way in the course of transportation at, say, a single compress or location on shore. It is therefore necessary to arrange very large automatic reinsurance covers, because no single company can handle this business with safety to its resources. Moreover, it is often the case that underwriters are not in a position to deal with

¹ Marine insurance hearings before the Subcommittee on the Merchant Marine and Fisheries, Sept., 1919, p. 222.

known facts, since they can not obtain immediate advices as to their total individual liability on a vessel before her departure. If prior reinsurance arrangements have not been entered into with other underwriters, one individual company might find itself with one or two million dollars of liability several weeks after the vessel has sailed, and at the same time experience the utmost difficulty in obtaining reinsurance in the open market, and, in fact, may have a total loss before accurate information is obtained as to the total liability involved.

Again, large shipments may have to be financed and started on their voyage with utmost speed and to this end large amounts of insurance may have to be negotiated within a few hours. Inability to do this would greatly handicap many lines of business, especially where competition between markets requires the prompt acceptance of orders at closely figured prices. To meet such situations, it is common in various trades to have groups of underwriters undertake jointly the insurance of very large values, each company participating to an agreed percentage. In some instances, even, one joint certificate is issued, thus saving the insured and insurers much time and labor. Under such arrangements the party in interest may go to one of the underwriters and obtain all the insurance needed upon a valuable cargo, and do so between the time of loading and the close of banking hours, thus assuring the speedy placing of loans. Under certain of these arrangements losses are also adjusted and paid through the office underwriting the business, the insured being thus saved the trouble of looking to the several companies for the sum due from each. One company office acts as a clearing house for the distribution of risk, premiums, and losses between the members of the association. The companies are also enabled to do the business at a minimum cost, since practically all the head-office detail is eliminated. Moreover, rates are stabilized, and cut-rate competition, which tends to weaken the security of the insurance, is avoided. To allow companies to know upon what basis their agent can bind them some sort of tariff is published, based upon an inspection of vessels by competent surveyors and upon other proper conditions which the underwriters feel should govern the risk.

Automatic reinsurance arrangements are also instrumental in keeping a large amount of marine insurance in this country which would otherwise go to foreign markets. Since companies do not always possess information as to their total liability on any one steamer, they would be obliged to canvass the American market. In doing so they would often find it necessary to pay fancy rates, owing to the crowded condition of the market brought about by the fact that other companies either find themselves in the same position or are loath to take the excess lines for fear that their clients might also ship large values on the same steamer. If the shipments on board are definitely known the matter of reinsurance can be easily dealt with on the basis of known facts. Unfortunately, however, there is often a long interim of time when the shipments of cargo on a given steamer are unknown. It was such uncertainty that largely led to the formation of many of the most comprehensive reinsurance arrangements whereby the liability of each company is automatically reinsured with all the other members on the basis of agreed percentages. With-

out such automatic arrangements many companies would be driven to the expedient of cabling their reinsurance orders to Europe. With such arrangements in force, however, a large amount of business can be retained in the American market and thus kept from going abroad. In other words, the companies composing the American market could not assume all the reinsurance desired because of the fear that they might themselves have large commitments to look out for. Despite existing reinsurance agreements, a very large amount of American marine insurance must still go abroad by way of reinsurance. In a very large number of instances the companies have advised the committee that this is not due to choice but to necessity, owing to the comparative absence of reinsurance facilities in this country, as compared with the large market abroad. The value of a wide spread of risks is universally recognized, and American underwriters are practically a unit in declaring that the development of a comprehensive reinsurance market in the United States will serve as one of the most effective ways to prevent the present large exportation of marine insurance to the European market.

"Share" or "participating" reinsurance.—As might be inferred from the designations used, this form of reinsurance agreement provides that the original underwriter will give his reinsurers a definite share (proportion) of his business. The reinsurer, in other words, is allowed to participate in the business of the original underwriter. Sometimes the agreement extends only to a single account placed by the original underwriter for his client, the reinsurance contract providing, for example, that it covers "one-sixth part of such shipments as are accepted by the ——— Company (original insurer) under policy No. ———, issued for the account of The ——— Manufacturing Company." At other times the reinsurer shares in all of the original underwriter's business on a certain commodity, or shipments on a particular steamer, or on special types of business, such as lighterage, fishing, etc. Sometimes the agreement covers a stipulated interest in all business moving over various described routes of travel or by certain described lines of vessels. In still other instances two or more companies may agree to reciprocate—mutually share in each other's risks, although the respective proportions allowed may be different—as regards all their business wherever written. Such a plan is often used where several companies are under the management of one marine insurance office. Similarly, many instances of such participating reinsurance are found where a given office manages American as well as foreign marine insurance interests.

Under share reinsurance it is customary for the original underwriter to inform his reinsurers periodically of the facts surrounding the various individual policies covered by the agreement, such as the voyage, vessel, sailing date, nature of the cargo, policy conditions, premiums, and amount of insurance. These facts are declared on special sheets going under the name of "bordereaux." Where more than one reinsurer participates in the business—known as concurrent reinsurance—the aforementioned sheets must be duplicated so as to provide each reinsurer with a copy.

Reinsurance "pools" or "exchanges."—So-called reinsurance pools are share or participating arrangements whereby a number of companies—varying from as many as 10 to 36 in some of the leading

American examples of such agreements—arrange among themselves to share all insurance on a given commodity or on all business within a given territory on the basis of certain agreed proportions. In effect, each member company undertakes to give to each of the other companies in the arrangement a certain proportion of all the business it writes at certain rates of premium agreed upon by the group.

Most frequently these agreements represent a truce entered into after a period of severe competition at unprofitable rates. Under such circumstances the purpose of this plan is to effect an understanding which will restore and maintain a profitable level of rates. At other times the primary motives have been the forestalling of competition, which leaders in the business felt confident would otherwise arise, or the automatic distribution of unusually heavy lines that might be offered to any one of the members in order to obviate the necessity of scouring the marine insurance market for necessary reinsurance. Allotment of the respective shares is usually based as nearly as possible upon four factors, viz, the amount of business which each individual company may have had on its books when the pool is formed; the underwriting capacity of the company; the highest probable value which could be shipped on a single steamer or which might become concentrated in a single location; and the size and standing of each company as indicative of the volume of business which it could naturally and properly handle if it desired to do so. When once established the pool is usually strong enough to keep competitors out of the field, because the united action of all the members is sufficient to meet any rate-cutting campaign by outside parties. Frequently, however, membership may be granted to a newcomer in return for business which it may have the power to give on some other line of traffic, i. e., a company may be allowed to enter a pool which relates to traffic in which it has no share, providing it arranges to permit the other members to participate in some other pool in which they have little or no business.

The beneficial character of pooling arrangements to both reinsurer and reinsured must be apparent. To the companies they mean, if properly conducted, the elimination of excessive competition, reasonable assurance of a fair profit, the avoidance of irritating jealousies, and the reduction of overhead expenses. To the insuring public they result in the enhancement of the security of the protection offered, the retention and enlargement of capital in the business, and the elimination of much labor, inconvenience, and loss of time in the placing of large amounts of insurance. In view of the large proportion of the Nation's marine insurance handled in this manner, the following agreements deserve special mention:

The cotton reinsurance agreement.—Under this agreement a share of all cotton risks assumed by the original company is reinsured, excluding domestic shipments insured under policies issued to American spinners and/or American consignees in northern States. Geographically, the agreement covers from the interior of the United States to all parts of Europe and Japan. The distribution of risks is on the basis of an agreed number of shares, each company issuing a direct policy to the insured and ceding to the other companies a share of each risk in accordance with the stipulated percentages. The rates are arrived at by conferences between the representatives

of the companies. There is, however, no general agreement in writing, the only contracts being those for reinsurance issued by each company to each of the other members. Some 26 interests are parties to the arrangement, representing a total of 120 shares. One interest, involving four companies, represents 20 shares; another interest, composed of two companies, 20 shares; another interest, representing three companies, 15 shares; another interest of two companies, 9 shares; and still another interest, involving four companies, 8 shares. The remaining shares are represented by companies, two of which represent 12 shares each; one, 10 shares; three, 3 shares; two, 2 shares, and three, 1 share each. Of the 120 shares, however, 59½ shares are retained or placed elsewhere than with the companies mentioned. The contract is accompanied by a voluminous printed folder containing a tabular outline of the marine insurance rates on cotton shipments by approved steamers (including United States shore risk and country damage as per policy terms and conditions) for the season 1918-19, subject to change on 30 days' notice. The folder specifies the voyages between a large number of American ports and British and French ports, and for each voyage stipulates the rate by types of steamers. Rates are also mentioned for direct shipments to approved ports in Japan, China, India, Manila, Vladivostok and Mexico.

Cotton fire and marine underwriters.—This refers to an agency of a number of companies writing cotton marine and transit insurance with a reciprocal reinsurance understanding. Each company operating through the agency issues an individual policy to a shipper and covers from the time the cotton becomes the property of and is at the risk of the shipper until the liability of the shipper ceases, whether here in America or abroad. The risk under each policy is reinsured with the other companies in the agency at a fixed percentage of each risk written. The manager, with the advice and approval of a managing committee appointed from the interested companies, handles rates and all other matters pertaining to the business. There is no written agreement between the companies, but only an acceptance of reinsurance by each company of its agreed percentage of all liability assumed by each company represented in the arrangement.

Burlap agreement.—This arrangement is similar to the cotton agreement and covers the traffic in jute, jute butts, bagging, burlaps, and gunnies from Calcutta to ports and places in the United States, British North America, Cuba, or Porto Rico. Twenty separate interests, representing, however, a much larger number of American and foreign companies, constitute the membership and divide the business on the basis of 172 shares. Each company is obligated to reinsure a portion of any risks which it may assume with the other members. Four interests are entitled to eight shares each, four to four shares each, and four to one share each. The balance is distributed among eight other interests, each receiving, respectively, 2, 5, 7, 13, 14, 24, 25, and 30 shares. The rates received on the reinsurance are stated in the contract.

Joint grain certificate.—The purpose of this association of 11 leading companies is to facilitate the writing of large amounts of insurance on grain moving on steamers on the Great Lakes. The

associated companies issue a joint certificate which certifies that the insurer is protected by the several companies, "each insurer for himself and not one for the others." The respective percentages for the several companies are expressed on the certificate, and it is agreed that the certificate "represents and takes the place of the original policies, and conveys all the rights of the original policy holder, for the purpose of loss or claim, as fully as if the property was covered by a special policy direct to the holder of this certificate." It may be added that the certificate is signed by the authorized agent of all the companies, who is appointed to conduct all of the joint ventures. The interested companies hold an informal conference once a year and agree upon rates for the current season.

Lumber Reinsurance Association on the Great Lakes.—Under this arrangement companies reinsure each other's policies on an agreed percentage of the risk assumed. Contracts are made at the beginning of the shipping season between the shipper and the company he may select, to cover against marine perils on lumber and timber products moving on the Great Lakes or the St. Lawrence River. Report of each shipment is made when the insured receives advice of the same. The vessels used are restricted to those which have been inspected and classed by the American Bureau of Shipping, and each shipper is supplied with a book containing a list of these ships and their respective classes. The companies have adopted a tariff as a basis for reinsurance, and this is attached to each contract made. The office which writes the risk is the clearing house for the distribution of risk, premiums, and losses between the members of the association. All insurance is issued on the basis of "each for itself and not for the others," the companies joining only in such matters as make for the convenience of shipper and company and which are helpful in the reduction of expenses through the handling of the business by a central agency.

Inland river agreement.—Twelve leading companies have entered into an interreinsurance contract, each with the others, covering their respective interests on all hulls, cargoes, freight lists, and charges as regards inland waters of the United States, and which may be insured in any one of the companies through a designated general agency, or its representatives and subagents. The agreement, however, does not embrace any business covered by the New Orleans River Association, nor certain lines which are not acceptable to all parties to the agreement. The business is apportioned so as to give three companies 15 per cent each, four companies 5 per cent each, and the remaining three companies 6 per cent, 9 per cent, and 20 per cent, respectively. The maximum line contemplated on any one venture, either on hull, cargo, freight list or charges, or on all combined, is limited to a certain amount, and any excess over that amount is to be reinsured by the general agent where and when possible and to the best advantage. But, should no such reinsurance be secured, it is understood and agreed that each member assumes his proportionate share of such excess.

New Orleans River Association.—This association is a clearing house arrangement, and the secretary receives regular reports and distributes monthly the amounts and premiums among the companies interested. The rates paid to all the companies interested are the same.

American Foreign Insurance Association.—Twenty leading American fire and marine companies form this association for the purpose of developing a fire and marine insurance business in foreign markets. Reinsurance is only one of its purposes, and in this respect each member must participate in all writings, losses, and expenses according to the percentage assumed by such member in either the fire or marine departments.

“Excess reinsurance.”—Despite the distribution of risk through share or participating agreements, the original underwriter may still be left with a liability exceeding the normal line customarily retained. Such excess liability may be shifted to other underwriters through so-called “excess reinsurance” contracts, which describe definite time and geographical limits, and which apply as soon as the original underwriter has an excess liability under all his contracts, including reinsurance arrangements as well as policies issued directly to clients.

The various interests to be considered in determining the original underwriter's retained liability, such as hull, freight, cargo, profits, etc., are set forth in the contract, and it is then provided that the original underwriter shall assume all of these risks unless they exceed a limit of, say, \$150,000. Should the interest at risk on any one vessel, or in any one location, exceed this retained line, the reinsurer agrees to cover the excess to an amount not to exceed, let us say, \$100,000. Any share reinsurance which the original underwriter may have for his protection is usually deducted in ascertaining the net retained line. Innumerable variations exist as to the subject matter and rights covered. Sometimes the coverage is practically world-wide, while other contracts are limited to certain commodities, or to all shipments over certain routes or on certain vessels, or to all shipments on certain customer's accounts. It is also provided, as a rule, that in ascertaining the excess, the entire interest which was intended to be loaded aboard the vessel should be considered. As a consequence there is taken into account the value of the goods which may happen to have been destroyed or damaged on shore, or while on lighters prior to their being loaded, the reinsurer assuming his pro rata liability for such losses. Sometimes the contracts are nonreciprocal, while in other instances the arrangement is reciprocal, i. e. the parties reinsure each other's excess lines.

Serious complications may arise under excess contracts and it is therefore customary to outline principles and methods of procedure in advance. Should an excess have once attached, such attachment will continue throughout the balance of the venture irrespective of any changes, such as transshipment of the cargo, division of interest, partial discharge, or partial loss. This means that when an excess once applies, the excess reinsurance fulfills the same function as a share contract, i. e. both reinsured and reinsurer are liable for their respective proportions on all losses. Where, however, new cargo is taken aboard at transshipment points, the question of whether such additional cargo is covered by the reinsurance will depend upon the treatment of the subject in the contract itself.

Reinsurance covering excess losses.—Various situations may arise whereby an insurance company, despite the use of excess reinsur-

ance, may unknowingly incur a liability much in excess of its normally retained line. In certain trades as, for example, in coastwise commerce, it may be impossible to trace shipments, thus making it necessary to have the insurance refer to certain transportation lines as distinguished from some specifically named vessel. Or it might happen that values of inland risks moving over a number of routes might be so difficult to trace and become so concentrated at transshipping points that the cover obtained under share or excess agreements would prove inefficient.

As a remedy for such a contingency the underwriters may protect themselves through excess loss reinsurance, which bases the reinsurer's liability upon the amount of loss in excess of a stipulated sum rather than upon the amount at risk. Thus, the reinsurer may agree "to cover on hulls, freights, cargoes, advances, disbursements, and profits of every kind and description for which the original underwriter is or may be liable under marine contracts now in effect or which may hereafter be issued during the term of the reinsurance agreement." But provision will be made that no claim is to be paid unless the original company has paid or becomes liable to pay to its policyholders on account of loss by any one disaster a sum exceeding, let us say, \$50,000, and then for not exceeding \$100,000, upon the excess thereof, by vessels the character of which is described. Similarly in connection with shore covers, excess loss reinsurance is frequently resorted to. One company called the committee's attention to a case in point where a single shipment of 20,000 bales of cotton, belonging to one shipper and valued at \$4,000,000, became concentrated in one location, and explained that such congestion caused it to seek protection against a heavy loss by taking out a cover in London to reimburse it should a loss in any one fire exceed the amount provided for its protection through other reinsurance arrangements.

It must be apparent that the chance of loss under this type of reinsurance contract is considerably less than under other forms of excess reinsurance, the risk depending upon the amount of loss which the original underwriter agrees to assume before making a claim under his reinsurance contract. The reinsurer is liable only for losses in excess of this figure and, except in rare instances, does not become liable for partial losses. Since the risk is greatly reduced, rates on this form of reinsurance will be correspondingly lower. In fact, if the point at which the original underwriter becomes liable is placed sufficiently high, the reinsurance protection is really meant to cover only total or constructive total losses. It should also be noted that excess loss reinsurance does not involve the principle of coinsurance. In this respect it differs from excess reinsurance based upon the amount at risk, where the reinsuring underwriter is a coinsurer in the sense that he must pay losses in the proportion that the amount insured under the reinsurance contract bears to the total insurance granted by the original underwriter on the property in question.

Special reinsurance contracts.—Much simpler than the foregoing arrangements are those reinsurance contracts which cover only a specific risk or which may relate merely to a total loss. Large companies find it necessary to place such special reinsurance on indi-

vidual risks almost every day of the year. The contracts may be either "excess," "participating," or "flat." The last term refers to agreements whereby the amount of the reinsurance on a given risk, \$25,000 let us say, remains the same irrespective of changes in, or even the cancellation of, the reinsured's retained line.

Under some contracts the reinsurer must accept cancellation in case the original policy should never attach. But under other contracts the original underwriter is not given the privilege of cancellation and owes the premium on the entire amount of reinsurance even though the reinsurer never assumed any risk whatever, and the original underwriter failed to receive any premium. On first thought this arrangement may seem very unfair, but it must be remembered that the reinsurer must always have regard for his underwriting capacity. By accepting the reinsurance he assumed an apparent liability for the time being, and, in view of his carrying capacity on a given vessel, made no further effort to acquire other insurance. Under these circumstances, enforced acceptance of a cancellation might constitute an injustice in that it would cause the reinsurer to lose profitable business which he easily could have taken had it not been for the acceptance of the reinsurance in question.

Conditions governing reinsurance agreements.—Aside from the features discussed in the preceding pages of this chapter, so many other conditions of varying kind and form are found in reinsurance treaties and agreements that space limits forbid a complete analysis. Suffice it to describe briefly those important features most commonly included. At least four special conditions should be mentioned, viz:

Original terms and conditions to apply.—For the average company reinsurance involves the placing of a large number of separate risks, many of which were originally insured under policies differing greatly in their terms, endorsements, valuations, and perils assumed. It is therefore important that the reinsurance contract, covering all these separate risks, should take proper account of all these differing conditions. Accordingly it is common to use some such "reinsurance clause" as the following:

The reinsurance shall attach automatically at the same time as the liability under the company's original insurance or reinsurance, and is subject to the same clauses, terms, and valuations, including all risks (here follows an enumeration of the routes, locations, and conveyances covered) and shall cover the interest until safely delivered at final point of destination in the interior or elsewhere.

The purpose of this clause is such as to make the judgment and acts of the original insurer, except as otherwise provided, binding upon the reinsurer. The clause, however, is supplemented with other sections defining the amount of the coverage, the commencement and duration of the reinsurer's liability, the conditions under which the original insurer may reduce his ordinary retained line, the manner of making declarations, alterations, and cancellations, the method and extent of making deposits by the reinsurer for the performance of obligations under the agreement, the rendering of periodic accounts by the original insurer to the reinsurer, and the classes of business, if any, which the original underwriter may exclude from the agreement.

Settlement of premiums, commissions, and expenses.—Where the reinsurance is based on similar terms and conditions, it is advan-

tageous to also have the original rates apply less a discount which has for its purpose the offsetting of commissions, taxes, license fees, discounts, rebates, and returns, and other expenses incurred by the original insurer. It is also customary for the reinsurer to make a further allowance of a stipulated percentage (a contingent commission) on the annual net profits, and the method of calculating the same is set forth in minute detail. Where the reinsurance is not based on similar terms and conditions the original underwriter is also compensated for those perils which he himself assumed. Moreover, in the majority of excess reinsurances it is customary to use rates differing from those applying to the original insurance.

Settlement of claims.—It is also advantageous to have the reinsurer bind himself to follow the same method of settling claims as is provided for in the contract given by the direct-writing company to the insured. This is accomplished by some clause as the following:

The company alone will settle all claims and such settlement shall, under all circumstances, be binding on the reinsurer in proportion to its participation.

Further provisions are inserted to the effect that the reinsurer must pay its pro rata share of all expenses connected with any resistance to negotiations concerning settlements or losses; that the reinsurer shall be credited with its share of any reimbursements; that all loss settlements shall be unconditionally binding upon the reinsurer; and that the original underwriter may draw at not less than three days sight on the reinsurer for its proportion of any loss equalling or exceeding a certain designated sum, and that losses for smaller amounts shall be settled in the account.

Arbitration of disputes.—In the event of differences arising with reference to any transaction under the reinsurance agreement, the same are usually referred to two arbitrators (who must be insurance or reinsurance managers and not in the service of any of the parties to the agreement) one of whom is chosen by each company, and an umpire is chosen by these arbitrators before they undertake the arbitration. If unable to agree upon an umpire, each arbitrator names one and the decision is made by drawing lots. When arbitrating a case the arbitrators must treat the agreement "as an honorable engagement rather than a merely legal obligation, and their decision, or that of the majority of them, shall be final and binding upon the contracting parties without appeal." In settling a case both arbitrators and umpire are "relieved from all judicial formalities, and may abstain from following the strict rules of law." Should either party fail to appoint an arbitrator within one month, the other party is privileged to name both arbitrators and the two shall then elect an umpire.

Special motives for effecting reinsurance.—Spreading of risks with its resulting reduction of liability is not the only purpose which induces underwriters to seek reinsurance. Certain exceptional uses should be mentioned, although their aggregate importance is small in comparison with the functions already discussed. Three such uses may be briefly described:

Arbitraging.—This type of transaction is pursued in many markets and relates to the practice of clipping a profit by buying in the low market and selling, at about the same time, in a higher market. In the marine insurance market it may happen that an underwriter

closes insurance at 2 per cent and then finds that he can reinsure all or a part of the risk at the lower rate of $1\frac{1}{2}$ per cent, the difference of one-half of 1 per cent being his profit. If the entire risk is reinsured, and if the reinsurance for which the arbitrager remains legally the guarantor is financially sound, the original underwriter has relieved himself of all liability, and may regard the one-half of 1 per cent difference in rates as a clear profit.

Reinsurance on missing or overdue vessels.—Where vessels are missing or overdue, or where it is rumored that they have met with disaster, it is only natural that interested underwriters should seek to relieve themselves of all, or at least a share, of their liability. This they may do by having other underwriters accept a portion of the risk at greatly increased rates of premium. During the recent war numerous instances occurred where the probability of loss seemed so reasonably certain that underwriters paid premiums of 90 to 95 per cent to reinsurers in order to be relieved of their liability. It is not uncommon, when a vessel is first reported as overdue, to have the original underwriter reinsure a limited portion of his risk. Later, if the news continues unfavorable, both underwriter and reinsurer may unload a further portion of their risks to other reinsurers at an advanced rate of premium, and later all parties concerned may again subdivide their risks. This process may be continued until, when definite news of the vessel's destruction finally comes to hand, the loss will be spread over most of the underwriting community. But it is always understood, and the law is to this effect, that the reinsurance must be based on the good faith of all parties concerned and that there must be no concealment or misrepresentation.

Reinsurance of risks of a liquidating company.—For various reasons, such as impairment of capital through unfortunate losses or inability to transact business on a sufficiently paying basis, a marine insurance company may wish to liquidate its affairs and retire from the field. Many of its policies, however, are untermiated. These contracts the retiring company may wish to protect, and yet its desire is to liquidate before their maturity. If the retiring company possesses sufficient funds to pay the necessary premiums it may find some other underwriter willing to take over its entire business by way of reinsurance. Consequently the policyholders are protected, the company is enabled to retire, and the liquidation is speedily and amicably effected.

CHAPTER V.

MARINE UNDERWRITERS' ASSOCIATIONS.

Marine and fire insurance associations contrasted.—Fire insurance differs essentially from marine insurance in that rates are fixed, and that virtually all stock companies throughout the United States cooperate in underwriters' associations as regards all important particulars. Every section of the country, in fact, is under the jurisdiction of some fire underwriters' association which controls, among many other matters, the actual fixing of rates, the inspection of properties for rate-making purposes, and the conduct and compensation of agents and brokers. So far-reaching has become the influence of these associations that a number of the leading States have seen fit to recognize their beneficial character, and have accordingly legalized them, subject, however, to State supervision. In marine insurance, on the contrary, no such static conditions prevail. Rates are anything but fixed, and brokers, judging from the testimony before the committee, have for years acted as free lances in the business. Competitive conditions, largely of an international character, prevail to such an extent that all past efforts of underwriters to effect cooperative arrangements for the purpose of stabilizing rates have either failed or been confined to the mere recommendation of rates.

But while marine insurance interests have thus far failed to effectively cooperate in actual rate making, there are, nevertheless, many matters of such a nature as to make cooperation between companies highly desirable with a view to applying correct principles and to developing and enforcing uniform, efficient, and economical practices. Such cooperation between underwriters has been effected through the creation of numerous so-called marine underwriters' associations. These associations, or conferences, differ from those mentioned in the preceding chapter in that, with a single exception, they do not exist for the purpose of effecting reinsurance. Instead, their functions are limited to the supervision and improvement of various matters relating to the conduct of business, such as the establishment of just principles, the adjustment of losses, the conduct of salvaging operations, the inspection of the loading of vessels, the adoption of policy forms and conditions, the recommendation of rates for certain classes of risks where that is possible, the legitimate advancement or defeat of vital legislation, the extension of American insurance interests in foreign countries, and the safeguarding and development of the business in the interest of the members.

Non-rate-recommending associations.—Many of the existing associations are formal in their organization, and have a constitution and by-laws. A considerable number, however, are very informal in character—mere voluntary associations—and do not even have a constitution and by-laws. At least 14 such associations play a prominent part in American marine insurance and deserve special

mention. Six of these associations are non-rate recommending in character, while eight, it is important to note, include among their functions the recommendation of rates, although one—the American Hull Underwriters' Association—has recently abandoned this function owing to foreign competition in the underwriting of hulls, but it is believed that the cessation of this important function is only temporary. Considering, first, the nonrate-recommending associations, their nature and purposes may be briefly described as follows:

(1) *The Board of Underwriters of New York*.—This board, which operates under a constitution and by-laws, was incorporated under the laws of New York in 1885 for the mutual benefit of marine insurance organizations doing business in New York, and for the transaction of such business as relates to them in common. In addition to the membership as it existed at the time of formation, any officer, manager, or agent in New York authorized to underwrite for a marine insurance organization doing business in New York, whether incorporated under the laws thereof or not, may be elected to membership. On behalf of its members the board maintains correspondents in the principal ports of the world for the purpose of caring for the interests of underwriters in case of wrecked or damaged property. It also maintains a bureau of inspection relative to the loading of vessels in the principal ports of the United States. The board, however, does not deal in any way with the recommendation or making of rates, its sole object being confined to the safeguarding, in a physical sense, of the subject matter of insurance underwritten by its members.

Numerous special functions are intrusted to standing committees of the board. One of these relates to the obtaining and depositing of moneys—the proceeds of damaged vessels and cargoes—to be paid over to the owners thereof when a satisfactory adjustment of the case has been made; likewise such funds as may be committed to the board by foreign underwriters or other parties awaiting distribution. Another relates to the consideration and adoption of uniform regulations, principles, and practices relative to the adjustment and settlement of losses and averages. Proper rules and regulations for the loading of vessels with grain, petroleum or other cargoes have also been adopted and a special committee is intrusted with the duty of providing means for the prompt notification of members of the board when cases of improper loading of vessels are detected. Inventions relating to marine insurance or maritime affairs, or the security of life or property on the sea, are considered by another committee and a report of its findings is submitted to the board. Still another committee considers and reports upon matters pertaining to pilot laws and the appointment of any commissioner of pilots.

American Institute of Marine Underwriters.—This institute, a corporation under the laws of the State of New York, was formed in 1898 at a time when underwriters transacting business in the United States and England had had a succession of very unprofitable years. An attempt was therefore made to effect an agreement between underwriters doing business in the United States upon tariffs of rates and terms inserted in policy contracts. The attempt failed, however, and none of the rate schedules lasted more than a few

weeks. After lying dormant for a long time, it was found that the institute could be made to serve as a very desirable connecting link with similar organizations in other parts of the world for the exchange between insurance companies of all kinds of marine insurance information. It has also served as an organization through which underwriters may study changes in legislation, and changes in commercial documents, such as charter parties, bills of lading, trade agreements as to purchase and sale of goods, etc. The objects for which the institute is formed are outlined in the constitution and by-laws as follows:

(a) To procure and furnish to the members or others concerned information and intelligence which may be of interest to marine underwriters.

(b) To discuss, consider, and report upon subjects of interest to marine underwriters; including questions pertaining to rates of premium and conditions of insurance, with a view to the general improvement of marine underwriting.

(c) To promulgate and support the views of the corporation on such subjects by addresses, discussions, reports, communications, and publications.

(d) To promote or oppose legislative or other measures affecting the interests of underwriters, and to take such steps and proceedings thereon as may be deemed expedient for giving effect to the views of the corporation.

(e) To promote, advance, and protect the interests of underwriters generally, without undertaking to conduct directly salvage or kindred work in particular cases.

(f) To do all such lawful acts as are or may be incidental or conducive to the attainment or performance of the above-mentioned objects or any of them.

(g) To promote friendly intercourse among the members.

Membership includes all marine insurance corporations organized under the laws of any State of the United States or, if organized in a foreign country, duly admitted to transact business in this country; the executive officers of any marine insurance company organized in any State of the United States; and the agent, manager, underwriter, or resident secretary in the United States of any foreign marine insurance company admitted to do business in the United States. Membership is also open to the managers or members of any association of Lloyds for marine underwriting, except that no subscriber to Lloyds who carries on any other business in addition to that of underwriting shall be eligible. It may be added that the membership comprises the great majority of marine underwriters transacting marine insurance in the United States.

Association of Marine Underwriters of the United States.—While not at all concerned with the publication or recommendation of tariffs, rates, rules, or forms, this association is instrumental in placing its membership in touch with opportunities for representation in foreign countries. It was organized during the recent war, as it was felt that during that time American marine insurance companies should have some special national organization in contradistinction to the Institute of Marine Underwriters, which is open to all marine insurance companies admitted to the United States, whether American or foreign. Forty-six American companies constitute the membership of the association, and these represent nearly all the American marine underwriting facilities. Only companies incorporated in one of the States of the United States and whose capital stock is owned by American citizens are eligible to membership, and with some half dozen unimportant exceptions every company doing

a marine insurance business which can qualify is now a member. Article I of its constitution sets forth the functions of the association as follows:

Its objects shall be to promote friendly intercourse among the members; to promote harmony, correct practices, and the principles of sound marine underwriting; to procure and furnish to the members information and intelligence which may be of interest to the members of the association; to discuss, consider, and report upon subjects of interest to the members of the association with a view to the general improvement of marine underwriting; to promulgate and support the view of the association on such subjects by all lawful and proper means; to keep its members informed of contemplated legislation inimical to the interest of the members of the association, and of the insuring public, by all lawful means; and finally to establish a representative organization through which the members of the association may speak collectively on matters affecting the interests of its members, and of the public insuring with them.

Two standing committees of the association deserve special mention, viz, (1) the legal committee, which considers and reports upon proposed legislative or other similar measures affecting the interests of marine underwriters, and takes such steps and proceedings thereon as may be deemed expedient by the executive committee of the association; and (2) the committee on business advancement, which considers, devises, and recommends plans for the advancement of the best interests of the association and of the insuring public.

American Foreign Insurance Association.—This association consists of 20 leading American fire and marine insurance companies, incorporated in the United States and owned and managed by Americans, as distinguished from companies incorporated in the United States, but which are organized, purchased, or controlled by foreign insurance companies. In other words, the association was formed for the purpose of establishing American fire and marine insurance companies in foreign countries, i. e., to put these branches of American insurance upon the world's map in competition with the companies of other nations. As stated in its constitution, the purpose of the association is to—

perfect, maintain and operate an organization for the development, extension, and proper conduct of fire and marine insurance and the allied branches of fire and marine insurance in territory other than the North American Continent, Cuba, Porto Rico, West Indies, Newfoundland, and Hawaii.

At the time of the marine insurance investigation¹ the association's work was largely along lines of investigation and development, representatives of the association having been located in South America and the Far East. According to the plan two departments were to be operative, one for fire insurance and its allied branches, to be known as the fire department, and the other for marine insurance and its allied branches, to be known as the marine department.

Membership in the association consists of stock fire insurance companies, or stock fire and marine insurance companies, organized under the laws of the United States or any State thereof, and of whose capital stock at least 75 per cent is owned by citizens of the United States; but no company shall be elected to membership if it is recorded that two members of the association object to such company,

¹ Hearings on marine insurance before the Subcommittee on the Merchant Marine and Fisheries, Sept. 25-27, 1919.

or until it has signed the constitution and by-laws and agreement. Every member must participate in all writings, losses, and expenses according to the percentage assumed by such member in each department. Each member is under obligation to use all honorable means to advance the interests of the association in its expressed purposes, and no member is allowed directly or indirectly to write or assume any business of the classes in which it participates in the territory operated by the association, except by way of participation through the association. Should any reinsurance treaties conflict with this, the same must be terminated not later than January 1, 1922.

Withdrawal from membership in the association is permitted upon notice in writing at least six months in advance of the date upon which the resignation is to become effective. But such resignation shall not relieve the withdrawing company from assuming its percentage of the obligations of the association during such six months of notice. The retiring member must also give an undertaking to the effect that in any territory in which the association operates it will not, during a period of two years after its resignation is effective, accept through any office, agent, or other representative of the association any direct business for its own account in the class or department in which it participated as a member of the association. It is clearly understood that the business acquired (including the personnel established by this association or any company representing it) shall belong to the association and shall be respected as such. Whenever it is deemed expedient to terminate a membership of any company, the board of trustees, after confirmation by 80 per cent in number of the members of the association, may terminate the membership of any company upon such terms and conditions as may be determined necessary and advisable, and not in conflict with the constitution and by-laws. Detailed provision is also made for the amounts to be deposited by the several members to protect the representative participations allotted to each. Upon assuming membership (between Jan. 1, 1920, and Jan 1, 1921) every company must pay an initial fee of \$5,000 for each 1 per cent participation allotted to it, and on January 1, 1921, and annually thereafter, such fee automatically increases by a certain stipulated amount. One-half of such fees are retained by the association for the payment of expenses that shall be necessary for the conduct of the business, and said fees may be increased or decreased in accordance with the needs of the association. Participation in the fire department is obligatory upon all companies, but participation in the marine department is optional with members until January 1, 1920. Thereafter such participation is closed, except on the same terms as are applicable to new members of the association.

The National Board of Marine Underwriters.—The objects of this board, which was incorporated in 1885, are enumerated as follows in its constitution and by-laws:

Its special aim will be to secure beneficial interchange of views upon and consideration of matters pertaining to the general conduct of marine insurance, such as:

First. The selection of correspondents at distant and foreign places, for attention to wrecked and damaged property, and such protection thereof as may be duly authorized.

Second. Approval and recommendation of standard forms of policies, or insurance agreements, with a view to such uniformity as may be consistent with the essential rights of underwriters and their assured to freely contract with each other.

Third. Measures for procurement and use of early and accurate information of shipwreck or other disaster at the expense, as far as practicable, of parties interested therein.

Fourth. Rules for classification of vessels for the purpose of insurance, and recommendation of such rules to local surveyors or organizations whose employment or duty it may be to survey and rate vessels.

Fifth. Rules for loading vessels with grain, petroleum, or other articles deemed suitable for special regulation.

Sixth. The principles and rules of average adjustments and provisions for arbitration of differences arising upon such adjustments.

The second and fourth purposes, as mentioned above, the management of the board advises, have fallen into disuse and for a considerable number of years the board has not made any recommendations as to standard forms or insurance agreements, or promulgated any rules for the classification of vessels.

The membership consists of three classes, viz, resident, associate, and honorary members. Resident membership comprises officers, managers, agents, or representatives authorized to underwrite for any American or foreign marine underwriting organization transacting business and maintaining an office or agency therefor in the city of New York. Associate membership consists of officers, managers, agents, or representatives of any American or foreign marine insurance company or organization doing business in the United States, but not maintaining an office in the city of New York. This class of members possesses the same privileges of the board as resident members. Honorary membership consists of such officers, managers, agents, or representatives of marine insurance companies or organizations and representatives of kindred associations or corporations as may be elected from time to time. Such members are entitled to attend meetings of the board, but do not possess the right to vote or to serve on any standing committee.

Among the standing committees of the association reference should be made to the following:

Executive committee.—Among other matters, it adopts plans for procuring and disseminating among the members early and accurate information of marine disasters, the expense in connection with this matter to be borne, as far as practicable, by those specially interested.

Classification and inspection committee.—Recommends to the board rules for the classification of vessels for purposes of insurance, and for the guidance of local surveyors or organizations employed to survey or rate vessels; provides means for the dissemination of information regarding captains and owners of vessels as may be advantageous to members of the board; confers with experts, and recommends uniform rules and regulations relative to the loading of vessels with grain, petroleum, or other cargo requiring special attention; and provides means by which prompt information may be given to board members of cases of improper loading of steamers or other vessels.

Adjustment and arbitration committee.—Considers and reports such rules, regulations, and principles as it may deem proper for consideration and approval by the board, with a view to reducing to a system the principles upon which losses and averages shall be ad-

justed and settled, and may organize and arrange modes for arbitrating differences in which members of the board are interested, when requested by parties in interest to do so.

Salvage committee.—Recommends to the board for adoption means for the relief of vessels and saving of cargoes in localities where this may be required; takes charge of all interests entrusted to the board in cases of loss or disaster; directs and takes charge of deposits of funds arising from sales of wrecked or damaged property and from credits or from other sources; acts as arbitrator and/or referee in cases where questions of compensation for salvage or other services rendered to vessels or cargoes are referred to the board for determination, and in this respect the committee's award shall be considered as the act of the board.

Board of Marine Underwriters of San Francisco.—Fifty-two companies, comprising both American and foreign admitted companies, are members of this board. Its objects are to promote harmony and good will; to encourage the observance of correct practices among its members; to secure unity of action among underwriters, and to protect their interests at home and abroad. The membership is composed of organizations engaged in marine underwriting in San Francisco, and the election is by majority vote of members present at any meeting. Among its leading standing committees are the following:

Executive committee.—Investigates the cause of loss or damage to vessel, cargo, or freight, upon the written request of any member; examines all charges of incorrect practices against any member; and arbitrates any matter in dispute between interested members arising out of their marine insurance business.

Adjustment committee.—Examines all adjustments, excepting particular average on cargo, made up on the Pacific coast of the United States in which two or more members of the board, through their San Francisco representatives, are interested, as insurers or reinsurers. The results of any such investigation are immediately reported in writing to the members, and no member is to pay a claim until he has received this notice. Moreover, upon request by members interested, this committee assumes special charge of looking after any salvages that may become due to members of the board, and of collecting and disbursing the same to parties entitled thereto.

Surveyors committee.—To this committee are referred all matters pertaining to the appointment, compensation, discharge, maintenance, and control of all surveyors and agents; also, the adjustment of their fees, consideration of complaints, etc.

Rate recommending associations.—A considerable number of marine underwriters' associations recommend rates to their members, or did so until very recently. In nearly all cases, however, strong emphasis is placed upon the "mere recommendation" of rates, thus affording a strong contrast to the general practice prevailing in the fire insurance business. Fire underwriters' associations, prevailing in all sections of the country, have as one of their principal functions the fixing and enforcement of rates upon the entire membership. In many instances, however, particularly with reference to certain trades or types of risk, it is clear that the practice of "recommending rates" through marine underwriters' associations

is equivalent for all practical purposes to their general adoption by all members. There is, however, no definite obligation which binds the members to observe the rates as recommended. Instead, officials of the several associations have emphasized the point that, while the conferences recommend rates for the guidance and mutual benefit of the members, they are not bound to accept these recommendations and are at liberty to withdraw from the association at any time. It should also be observed that in nearly all instances these rate recommending associations are very informal in character and do not operate under a constitution and by-laws.

American Hull Underwriters' Association.—This association is not a regularly organized body, but is simply an arrangement for the assembling together of marine underwriters who make a practice of insuring hulls. There is no constitution and by-laws, and surveys and recommendations made are embodied in a circular to the underwriters who may be interested. For purposes of orderly action the underwriters appoint a chairman, three deputy chairmen and a secretary. The membership comprises practically all of the American marine underwriting facilities, including both domestic and foreign admitted underwriters.

The objects of the association are threefold. In the first place, the association recommends policy forms and conditions. As a result of the association's efforts, uniform forms and policies were drawn up in conference with brokers and others. These policy forms are known as American Hull Underwriters' forms, and are recommended to underwriters for their use and, as a matter of fact, are in general use in insuring ocean hulls. Another function is to appoint surveyors to investigate and report as to the condition of vessels about to engage in ocean service. This was deemed necessary because many vessels built for inland service were transferred to ocean trade, and consideration for the matter of safety of life and property at sea demanded that underwriters should take every precaution possible to see that vessels were, or were made, fit for the unusual service which they were about to undertake. Until recently the association also recommended rates at which various fleets of steamers should be underwritten by its members. Through deliberations of underwriters in conference with brokers, as well as shipowners, bases were found upon which vessels could be insured, which otherwise would have had great difficulty in securing protection. This function of the association, however, was discontinued several months ago, particularly at the time when foreign rate cutting on hulls commenced. It has been stated, and it is hoped, that this suspension of the rate recommending function is only temporary and that the same will be renewed as soon as possible.

Atlantic Inland Association.—The purpose of this association, which is also informal in character and which possesses no constitution and by-laws, is to secure uniform and standard forms of policies and rates for the insurance of inland vessels and coastwise tugs and barges. Questions of uniform conditions and rates are considered by a committee, and the committee's conclusions are submitted to the members for approval, and if so approved all of the members are advised of the fact. Practically all underwriters engaged in this

class of business, it has been reported, are represented in the association.

American Schooner Association.—The objects of this informal association are limited chiefly to the standardization of policy forms and rates. All suggested changes are discussed at the annual meetings and desirable changes are adopted at that time. The schooner form of policy adopted by the association, which is frequently referred to as the Boston form of policy, dates back a great many years and has been universally used in this country, with comparatively few modifications, for the insurance of sailing vessels. As indicated the association also recommends rates. From time to time printed tariffs of minimum rates on American schooners have been issued, these rates being arranged in tables stipulating the age of the vessel, the voyage and season of the year under consideration, and the percentage additions or deductions necessary to make allowance for special policy clauses, or especially favorable or unfavorable cargoes. These tariffs also embody rules relating to valuations, commissions, premium notes, cancellations, prohibitions, and desirable policy clauses. From time to time special tariff cards are also issued with reference to special trades.

Changes in rates have been infrequent. Where rates have been altered, the change was made after a discussion of prevailing conditions at one of the association's meetings. Prior to the recent war sailing vessels were employed almost entirely in the West Indies and Atlantic coast trade, but since the war they have engaged largely in off-shore trade to South America, South and West Africa and Europe. Accordingly schedules were adopted for recommending to members rates for some of the principal voyages. As different lines of trade grew up, the executive committee recommended rates for these voyages with the idea of all companies charging a uniform rate. All schooner shares are in sixty-fourths or multiples, and it often happens that there are many owners of individual sixty-fourths. Consequently through the recommendations of the association all owners are, as a rule, charged a uniform rate irrespective of the company they may happen to insure with.

Provincial Underwriters' Association.—Like the American Schooner Association, this organization is very informal, and has no constitution and by-laws. At the yearly meetings all changes which may have been suggested by the members during the year are brought up for discussion, and those which are regarded desirable are adopted at that time. This association has recommended rates chiefly on hull and freight interests, and on certain lines of cargo. Printed tariffs of rates and conditions are issued from time to time and these are divided into two parts, namely, (1) on hulls, and (2) on cargoes and freight. The section on hulls gives the minimum rates based on the age and size of the vessel, the voyage in question, and the season of the year, and outlines the rules relative to prohibitions, special privileges, and various underwriting practices. Also with reference to builders' risk insurance, the rates and conditions are fully stipulated. The printed tariff dealing with cargoes outlines the rate with reference to (1) "coal shipments" and "other shipments"; (2) "sailing vessels" and "steamers," and (3) "fishing business" and "Provincial lumber and general merchandise."

Yacht Association.—The membership of this informal organization consists of underwriters interested in the insurance of small yachts and motor boats used exclusively for pleasure purposes and having a comparatively low value. Its purpose is to secure for these underwriters uniform and standard policy conditions and rates. It is customary for a committee of the association, prior to the beginning of the yachting season, to consider conditions and rates for the insurance of this type of vessel, and to submit its findings to the members of the association for approval, after which each underwriter interested is advised of the action taken.

Steam-schooner agreement (Pacific coast).—The agreement serves the purpose of recommending to its members minimum rates and conditions on Pacific coast hulls of the steam-schooner type. These rates and conditions are based on the experience of the members.

"Postal insurance" and "tourist insurance" underwriters' conferences.—It remains to be stated that many of the marine insurance companies transacting business in the United States are members of the Postal Insurance Underwriters' Conference and the Tourist Insurance Underwriters' Conference. Both conferences exist for the purpose of recommending rates, clauses, and policy conditions. They have been organized for the guidance and mutual benefit of the members, but the companies advise that they are not bound to accept the recommendations and are at liberty to withdraw their membership at any time.

CHAPTER VI.

RATE MAKING IN MARINE INSURANCE.

Much mystery seems to surround rate making in marine insurance. "How is a rate made?" was often asked during the committee's recent hearings, and the explanations always emphasized the absence of static conditions in this respect, the prevalence of national and international competition, the lack of consultation and cooperation between the companies, the supreme importance of the underwriter's judgment, and the necessity of viewing the insured's individual account. An examination of the hearings before the committee will clearly indicate that marine insurance is far more complex than other forms of indemnity as regards rate making. Fire insurance provides against loss occasioned by a single hazard. Life insurance insures against an event the occurrence of which is inevitable, and the risk concerning which is measured by the application of the law of average to a mortality table. Marine insurance, however, undertakes to indemnify a person against the loss of vessel, goods, freight, anticipated profits, or any other insurable interest, through any of the numerous perils connected with navigation, such as the perils of the sea, fire, collision, jettison, barratry, and "all other perils, losses, and misfortunes."

Importance of the underwriter's judgment.—While life and fire insurance operate upon a scientific rate-making basis, this can be said of marine insurance to only a limited degree. Except as regards a limited number of commodities and a few classes of hulls, there are no fixed marine insurance rates. This is unlike the practice in fire insurance where rates are fixed by underwriters' associations for all member companies and where changes take the form of percentage additions or deductions because of some general change in circumstances surrounding the business as a whole. Leading marine insurance companies do possess a great mass of statistical experience which is used as a basis in arriving at rates. Yet such data serves only as a basis, and must be supplemented by many factors which vary greatly under different conditions. Taking the business as a whole, there is probably no other branch of insurance in which success is so largely dependent upon the sagacity, keenness of observation, and the general specialized ability of the individual underwriter to judge not only the moral and business qualities of men and the inherent character of the subject-matter insured, but the effect of climate, seasons, adverse physical forces prevailing on certain routes, trade customs, special policy provisions, and numerous other considerations upon any one of a large number of risks, as in marine insurance. To a very large extent the business is inherently a system of estimates, and the importance of the judgment and ability of the underwriter can not be overemphasized.

A marine insurance rate is really a composite—a general judgment—of all the numerous factors which have a bearing upon the

particular hazard underwritten. This necessity for comprehensive judgment accounts for the extremely limited number of expert underwriters in a new marine insurance market like our own. It has been one of the chief reasons for having the marine departments of a large number of companies placed under a common management. The absence of trained men has also been responsible for the unwillingness of many of our fire companies to enter the marine-insurance business, while of those who have done so, many of the smaller companies confine themselves solely to the taking of risks (by way of re-insurance) accepted originally by some larger underwriter. Witnesses also testified during the recent marine-insurance investigation¹ that leadership in the business is a very important factor, and that frequently other underwriters participate in a risk after various amounts have been taken by certain underwriters well known to the insurance community. In London, particularly, various underwriters are experts—leaders—in different trades, and acceptance of a portion of the risk by them will greatly facilitate the underwriting of the balance by others.

Importance of the personal factor.—Underwriters must emphasize the personal factor in marine insurance, i. e., must take into account the profitableness or unprofitableness of the individual insurance account. Two vessels may be alike in all respects, yet under different managements the rate of premium might be quite different. One owner is efficient as a manager, attends properly to the vessel's upkeep and the appointment of officers and crew, and makes for himself a reputation among insurance companies. The other owner, let us say, fails to do these things and undertakes to save at every point he can, with the result that his losses are many as compared with the more careful owner. To give these two owners the same rate would be distinctly unjust as between the owners and an impossible proposition to enforce upon the underwriter. There is no discrimination in giving a lower rate to a well-managed line with a good record than to a badly managed line with a bad record. Premiums must, in the long run, depend upon the results as shown by the insured's account and should, therefore, be based on the record actually experienced:

Similarly with reference to cargo, it is common to have a difference in rates on the same class of goods on the same steamer between the same ports and under the same policy conditions. Rates are made to insure the owner rather than the goods. It is in this respect that so-called "property insurance," relating to fire and marine insurance, is really a misnomer. The merchant who aims to reduce his losses by proper packing and handling and who makes good salvages should certainly receive a better rate than the merchant who is negligent in those important particulars. As one underwriter expressed the matter:

The personal equation enters into the making of marine-insurance rates very materially. This is right, and it should be so. There is a fallacy that has run through practically every bit of insurance legislation I have seen in the United States. There seems to be an obsession on the part of people when you insure a risk, a house, or ship, or anything of that kind that things that have exactly the same physical hazard ought to have the same rate. You do not do anything of the kind. You insure a man against loss to that property,

¹ Hearings on marine insurance before the Subcommittee on the Merchant Marine and Fisheries, House of Representatives, Sixty-sixth Cong., first session.

and while you take into consideration the construction of that property and its maintenance, it is the human element that is a very vital part of that rate making, and it should be so.¹

It may also happen that shippers of the same commodity, on the same steamer, and insured in the same company will have different rates because they have different contracts. One might be covered under an open policy which has been in existence for years and the experience record of which has been so highly desirable to the company as to fully warrant favorable treatment. Another shipper, on the contrary, is being insured for the first time and with the results of his account unknown, thus causing a difference in rates which is not unjustifiable.

To meet the aforementioned situation underwriters keep statistics with reference to individual accounts. If the business is being carried at a loss that fact will soon be revealed by the recorded data, and the company will then be in a position to apply the necessary remedies to reduce the number of losses. Such statistics of ownership, when coupled with the statistical experience pertaining to the trade or route, serve not only to show what rate ought to be charged but to adjust rates between man and man so that profitable accounts will not be penalized by making up the losses of losing accounts. Even where a new account is offered, the underwriter will endeavor to ascertain what the record of the vessel owner or merchant has been for a number of years in other insurance markets. Moreover, in certain trades the extent of damage through carelessness and inefficiency is not easily identified, although the hazard is known to exist on a large scale. Underwriters may, therefore, apply the remedy of making a return, in the nature of a reward for merit, to those merchants whose claims are nominal as compared with those whose losses are heavy. The nature of the reward may take some such form as charging a specified rate for a special form of damage and refunding the difference between that rate and a certain percentage thereof if the damage referred to does not exceed the stipulated percentage.²

The moral hazard.—Individual accounts must also be viewed from the standpoint of the moral hazard, using that term in the sense of unfair dealing as distinguished from carelessness and incompetent management. Good faith and fair dealing should be the very basis of the relationship between insured and underwriter. Their absence is particularly vital in the case of hulls, because indirectly the insurer of cargo on the vessels is also made to suffer.

Here, again, the keeping of statistics with reference to an ownership, a commodity, or a route is apt to reveal the extent of the dishonest dealing, with the result that very high rates, or a refusal of insurance altogether, will inevitably follow. In the case of cargo especially, the underwriter is largely dependent on the insured's statements when the insurance is negotiated. Documentary evidence, it is true, serves somewhat as a check to dishonesty, but it does not always reveal actual existing conditions at the time when the insurance is placed. As a general proposition, the underwriter must depend upon the fairness of the insured to make known all exceptional

¹ Hearings on marine insurance before the Subcommittee on the Merchant Marine and Fisheries, Benjamin Rush, pp. 183, 184.

² The method used, for example, in covering country damage claims on cotton.

circumstances relating to the condition of the goods, their packing, etc. Telling only part of the truth often constitutes the worst kind of deception. Underwriters also experience numerous instances of unnecessary and unfair claims, a practice often resorted to by those who, owing to slender profits in their business, have a tendency to use the insurance company as a source for enhancing their income.

Brokers' accounts as a basis for rates.—The foregoing considerations have referred essentially to individual accounts of vessel owners and merchants. But underwriters often view a broker's account as a whole, and this account may involve the risks of numerous owners. Underwriters at London Lloyds, particularly, follow this practice on a large scale, and as a result a losing business might be merged with numerous good risks and the account as a whole be continued for a long time. The total gross account of all kinds of business offered by the broker may be satisfactory and will thus hide certain unprofitable branches of business. Owing to the volume of business controlled by large brokerage concerns, they are able at times to force their wishes upon the underwriter even to the extent of placing certain lines of unprofitable insurance. Representing the insured and desirous of holding large accounts, these brokers will drive the hardest bargain possible. They may also operate in several markets, in one of which, say the domestic market, a certain line of business is unprofitable owing to adverse business conditions, while in another, say a foreign market, their line of the same business is on a remunerative basis. They will therefore resort to the expedient of combining the two classes of business and of going to the underwriter with the proposition: "You will have to take the unprofitable risks or I will not give you the remunerative business."

Competitive nature of marine insurance.—Unlike fire insurance, marine insurance is liquid and free, the market being national and even international in scope. As between underwriters there is comparatively little interchange of views with regard to individual shipments or accounts. Conference arrangements for the recommendation of rates are confined almost altogether to certain leading trades, such as the movement of cotton, burlap, lumber, grain, etc., and to certain special types of hulls. Outside of such instances there is relatively, as compared with other forms of insurance, little collaboration between companies in the United States in order to reach some sort of an agreement for an established rate. Abroad conference relations with reference to rates exist to a greater degree than here, but in this country the absence of such cooperation is generally considered one of the most unfortunate features of the business. Instead of combining their statistical experience for rate-making purposes, each company regards its accumulated data as its stock in trade. As one underwriter testified:

It is the one disability and perhaps the one vice of the marine-insurance business that we, each one of us, keep our own records and our own counsel and underwrite along our own individual lines.¹

To make matters worse, the underwriter must contend with the shopping proclivities of important brokerage concerns in the in-

¹ Hearings on marine insurance before the Subcommittee on the Merchant Marine and Fisheries, William H. McGee, p. 200.

terest of their clients. A broker operates as a free lance and often does not owe allegiance to any insurance company. Representing vessel owners or merchants, whose insurance accounts he handles, the broker will sound the various marine-insurance markets for the cheapest rate and will consult one company after another to ascertain the best rate and the most favorable policy conditions for his client. Often the broker may be asked to handle so large a volume of insurance—covering all the marine transactions of a large firm or all of the vessels of a large fleet—as to necessitate the use of a number of markets both here and abroad. Under such circumstances the well-experienced broker may arrange with the owner to insure the business at an average rate made up of one rate in one market and some other rate in another. When shipments or fleets of vessels worth millions are under consideration, a very small reduction in rate, say one-sixteenth of 1 per cent, will mean a large sum of money to the insured. Business conditions in a given trade may also be such as to require the utmost shading of insurance rates consistent with safety. Clients will therefore instruct their brokers to sound the market in its entirety with a view to obtaining the best average rate possible.

International character of marine insurance.—Another peculiarity of marine insurance—an evil, as many American underwriters term it—is the facility with which insurance may be exported to foreign markets by brokers or by the branch offices of admitted alien companies. As previously indicated, estimates of competent underwriters indicate that at least 20 per cent of all marine insurance originating in this country is exported directly abroad to be placed through nonadmitted underwriters or with the home office of admitted foreign companies, such business not appearing in any of the official reports issued by our State insurance departments. Such exportation of insurance is practiced chiefly in the case of hull insurance, where leading estimates are to the effect that at least 50 per cent of all such insurance in the United States is thus exported. Builders' risks also go largely abroad, either because the foreign rates are lower than American companies can afford to take the business at or because the laws of certain States forbid their companies from assuming this class of risks.

In foreign trade transactions it is often the case that the buyer, actuated by a desire to obtain the lowest rate or to patronize the companies of his own country, dictates where the insurance will be placed, the shipper having no voice whatever in the matter. Rates prevailing in the different international markets can be easily ascertained by cable, and orders for insurance may be placed easily and promptly through the same medium. It is for this reason that England has for years been the world's leading marine insurance market. Here underwriters are called upon daily to accept cargo and vessel risks from all parts of the world. Thus a shipment of goods from New York to Calcutta may be insured by the consignee through an agency in Calcutta with a British company located in London. Even where the shipper in America controls the insurance he may, if actuated by a desire to obtain the very lowest rate, instruct his broker to cable to his correspondent in London to ascertain the foreign rate. This correspondent in turn is in touch with the insurance market throughout the maritime world. If the rates reported

are not any better than the American rate, the insurance will probably be placed here. But if the rate quoted abroad is sufficiently lower, the instructions are to place the insurance with the foreign underwriter. It is in this way that a great deal of insurance on American hulls and cargoes disappears from the American marine insurance market.

American companies are thus obliged to compete with the insurance market of the world. In the absence of such competition it might easily result that insurance rates for American merchants and vessel owners would be higher than those obtained by their foreign competitors, thus handicapping American commerce. This fact should never be lost sight of, and indicates the inadvisability of arbitrarily restricting insurance to domestic companies, or of subjecting rate making to the approval of a governmental board. Attempts have been made to bring marine insurance under the same laws that govern fire insurance rating. Such a policy, however, would likely result in the transferring of much marine insurance to other jurisdictions. Modern business requires marine underwriters to give immediate quotations, and there is not time to first refer rates to some governmental board for approval. Long before the board could act upon the case some foreign underwriter would get the business from the shipper, even assuming that the foreign buyer would not exercise his right to dictate the placing of the insurance. It may also be doubted if marine insurance companies can ever succeed in effecting a cooperative arrangement for the fixing of extortionate rates so long as London Lloyds remains the important institution that it is. The numerous individual underwriters of this world-renowned exchange serve as a regulator of marine insurance rates. Collectively they constitute an international force—a free-lance element—which will thwart any attempt to raise marine insurance rates to an excessive level.

Law of average applied to specific factors.—While the underwriter must concern himself with the aforementioned general and variable factors, it does not at all follow that marine underwriting is based solely upon opinion or luck. Many elements in rate making are fairly constant, and as regards these marine insurance companies pursue the practice, followed in other lines of insurance, of charging on the basis of a law of averages arrived at through the tabulation of statistical experience on many risks of the same kind over a considerable number of years. If the number of like risks is large enough, and if the period of time extends over ten years or more, it is reasonably certain that the conclusions as to the hazard involved in any particular trade will include all exceptional conditions likely to arise, and will, as a consequence, be fairly accurate. In very exceptional cases, however, the data may be supplemented by the underwriter's personal judgment. Although not scientifically correct, such data will serve as an approximate guide for the charging of rates sufficiently high to pay losses, to cover expenses, and to provide a reasonable return on invested capital.

Numerous factors thus lend themselves to an approximate measurement of their importance. Some of these relate only to hull insurance, others only to cargo insurance, and still others to all interests involved in a maritime venture. Briefly enumerated, the most important factors of this kind refer to the effect of physical

forces on various routes of travel or at different ports; to the inherent quality and characteristics of different types of vessels or commodities; the various methods of operating vessels, packing, loading, transshipment and discharge of goods, nationality of the vessel and national characteristics encountered in a given trade; the effects of seasons; the duration of the risk; the effect of trade customs; and the loss experienced under various special policy provisions. It will be the purpose of this chapter to discuss these factors briefly and to point out the significance of each to the underwriter in his task of arriving at an equitable and adequate rate.

Natural forces and topography.—In passing judgment upon the merits of individual risks, underwriters must necessarily be acquainted with the physical forces and topography associated with the voyage in question. If storms, fogs, currents, shoals, and other natural factors were nonexistent, the use of marine insurance would be limited merely to protection against fire and the acts of man. But the mighty forces of nature offer many uncertainties to maritime undertakings, and the frequency and severity of their operation varies greatly with the locality, thus causing one route to be dreaded much more than another.

Many of these forces, and some of them extremely hazardous ones, may be designated as passive forces of nature, such as fogs, calms, ice, icebergs, and darkness. Fog is the leading cause of collision and stranding, and is a great menace in that it necessitates navigation by dead reckoning with its resultant losses to underwriters. Calms are dreaded by the navigators of sailing vessels, although the equipment of such vessels with auxiliary motive power has reduced this hazard materially. Ice and icebergs are a real menace to navigation in many areas, particularly at certain seasons of the year, and have been responsible for some of the greatest catastrophes on record. Other leading factors of the passive kind, which greatly increase the hazard connected with maritime ventures on certain routes, are shallow water, long tortuous channels, long nights, and submerged shore reefs and sand bars.

As contrasted with the passive factors are those which may be classed as active, such as winds and storms, tides, tidal waves, currents, and seaquakes. The effect of these will often vary according to locality, as for example, where great masses of water are forced by storm or tide through narrow channels into small bays. All of these factors, whether passive or active, constitute a vital consideration in arriving at a rate with reference to a given route. The lane ways of commerce are not on a par in this respect. Some are comparatively free from natural hazards, while others are known to be subject periodically to heavy fogs, storms, ice, tidal waves, etc.

Nor is the open ocean voyage the only consideration, since many of the hazards confronting underwriters are associated with the ports of departure, call, or destination. Here a great variety of problems present themselves. Some ports are known for their difficult approach, insufficient depth, absence of good anchorage ground, lack of protection against the action of waves, tides, or tidal waves which may cause flooding of the docks, and shifting sand bars or other obstructions. In fact, some ports are so inferior that vessels can only discharge cargo by anchoring off shore in fair weather and having

the goods lightered by smaller craft. Other ports, on the contrary, are favored by nature or have been improved artificially through dredging and the construction of breakwaters, tidal basins, anchorage buoys, and other devices.

Construction and type of vessel.—A vessel of some kind must serve as a base for all kinds of marine insurance, be it on hull, cargo, or freight. The quality and fitness of the vessel—the means of conveyance—is therefore of supreme importance. To arrive at a proper rate on any insurance risk the underwriter must be placed in a position to know the vessel with respect to its builder and owner, structural plan, material used in construction, type of propulsion, structural strength to resist stresses and strains, adaptability to carry various kinds of cargo, and its age and physical condition.

Purpose of classification societies.—As a convenient means of giving such information to underwriters and shippers, various so-called classification societies have been organized for the purpose of promulgating rules for the construction of vessels, of supervising such construction, assigning a “class” to each vessel, and publishing books containing a detailed and classified description of the most essential features of all vessels coming within their jurisdiction. Although classification is entirely optional, vessel owners would find it so difficult to obtain insurance and would meet with so many obstacles in soliciting freight to best advantage, that few care not to have their vessels listed in the publications of some one of the leading societies as having been classed by it. Classification means that the vessel was designed and constructed under the supervision and according to the standards of the society. Following the completion of the vessel, surveyors of the society examine the work. If all is found satisfactory as to structural plan, materials, and machinery, the vessel will be assigned to a class, subject to the understanding, however, that periodical surveys and necessary repairs shall be made as the society may direct.

As supplementing the classification, however, the underwriter must give thought to certain additional factors, such as the vessels use for bulk cargoes, with the attendant danger of the shifting of cargo, long voyages in ballast causing greater difficulties in the management of the vessel during storm and subjecting the propeller blades and motive power to unusual strain, and the presence or absence of a load line. The last factor is very important, as is evidenced by the present effort of Congress to enact a national load-line law. Most other commercial nations have already adopted laws which prescribe that a definite load line be assigned to vessels (being painted, cut in, or affixed to the side of the vessel), and which prohibit loading beyond this point in the interest of passengers, crew, and cargo, as well as the vessel itself. Underwriters were a unit during the committee's marine-insurance investigation in advocating the adoption of a load-line law for the United States.

Most important classification societies.—The most important classification record, and also the first historically, is Lloyd's Register of British and Foreign Shipping. While issued originally by London Lloyd's, this publication is controlled at present by an organization managed by underwriters, merchants, and vessel owners and builders, and is entirely distinct from London Lloyd's.

According to advices, however, underwriters assume the dominant roll in the management of the organization. The publication is designed to indicate the general character of all vessels in the British marine of not less than 100 tons, besides numerous vessels in foreign fleets. Among other items this publication states the name, materials of construction, details of the decks, the engine and boiler equipment of the vessel, its dimensions and registered tonnage, and the date of the last survey. To keep the shipping world informed of any important changes, supplemental lists are published periodically in connection with the annual edition of the Register. In other words, this Register may be likened to a catalogue of nearly all the important vessels of the world, from which the underwriter may ascertain, by a hurried reference, the general fitness of a specified vessel to make a given voyage or carry a certain cargo. To render such reference on the part of the underwriter still easier, both iron and wooden vessels are divided into separate classes, and these classes into grades, each grade being designated by a code symbol.

Since the classification of vessels is fundamental in the shipping and insurance business, the importance of a publication like Lloyd's Register can not well be overestimated. This influence has been so potent a factor in British shipping that other nations have been obliged to adopt a similar system; although in this respect Lloyd's Register has served as the standard after which maritime nations have modeled their own registers. To such an extent has the classification of vessels become a necessary adjunct to the shipping industry that practically no vessel of any importance in any nation is without a regular classification in some standard register. Chief among the numerous registers now published in addition to Lloyd's are the Bureau Veritas of France, and the Record of the American Bureau of Shipping. The American Bureau, it should be stated, is rapidly forging to the front, and is receiving the hearty endorsement of American underwriters as well as governmental departments. Recent recommendations have been made to the effect that this Bureau shall be made the authority in technical matters of construction of merchant ships and their machinery, and that Congress should also name it as the regularly constituted authority for the fixing of load lines and freeboard. Early in 1916, this bureau's classification and inspection extended to only 8 per cent of American-built vessels, while Lloyd's and the Bureau Veritas had 92 per cent; but by July, 1919, the respective figures were 68 per cent for the bureau and 32 per cent for the other two societies.

Other first hand aids of the underwriter.—In addition to the publications of classification societies, a well-equipped underwriter's office will also possess maps, charts, and port books giving detailed information as to prevailing winds, currents, and ocean lanes, the location of lighthouses and wireless stations and the most pertinent features relating to the depth, protection, and facilities of harbors. Nor do underwriters rely solely upon the information concerning vessels furnished by classification societies. Changes on a vessel may easily take place subsequent to her last classification. Accordingly leading underwriting offices have their own surveyors to furnish them with authentic vessel records.

Underwriters' associations.—As supplementing all of the foregoing, additional assistance is derived from various classes of associations. Well-equipped salvage associations, usually privately-organized, render great aid in the prompt salvaging of vessels and cargo, thus greatly reducing unnecessary loss. Other associations, already discussed at length in a previous chapter, are organized and managed by the underwriters themselves and serve various purposes, such as the fostering of business in general, establishment of just principles, inspection of the loading of vessels, conduct of salvaging operations, adjustment of losses, and the adoption of uniform policy forms and conditions.

Characteristics of commodities.—Just as it is necessary for the underwriter to give thought to the physical condition of the vessel, so it is essential, in the case of cargo insurance, to be acquainted with the peculiarities of the hundred and one commodities that are offered as risks. Each commodity presents problems of its own, and the hazard may, furthermore, vary according to different circumstances surrounding the shipment. Space limits forbid the enumeration of all factors in this respect, but the following will serve to indicate the underwriter's problem in judging a risk:

(1) Raw products may at times be transported in their original condition, while in other cases the commodity may have been subjected to a curing process prior to shipment which will substantially increase its durability from the standpoint of time, temperature, moisture, etc. Two shipments of the same commodity may therefore represent a totally different hazard, depending upon the preliminary treatment referred to.

(2) Preservation of certain articles will depend largely upon the use of proper containers, or the employment of good methods of packing. Any underwriter can testify to the heavy loss resulting to shipments of American cotton, for example, from the improper protection of the bales by burlap. Much loss through leakage or evaporation often results because improper containers are used.

(3) Other articles are apt to absorb odors or to be otherwise easily affected by the presence of other commodities, and it is therefore important to know the miscellaneous character of other cargo aboard the vessel, or the degree to which the vessel affords facilities for protecting one portion of its cargo against damage caused by other cargo being shipped at the same time or which, having been shipped previously, might have left a taint clinging to the vessel.

(4) Certain articles are easily affected by salt water or exposure to the elements, while others, like lumber, remain unaffected. Accordingly, the first class of goods may require special protection, or certainly stowage under deck, while the latter class may, from an underwriter's point of view, be carried safely on deck. Still other articles are of such a hazardous nature that shipment on deck is essential for the protection of other interests in the venture.

(5) Sometimes commodities are of such a perishable nature that delay in the voyage, if caused by a marine peril, will subject the underwriter to heavy liability. To meet such situations special types of vessels have been designed. Thus refrigerating steamers are especially adapted to the carrying of fruit and meat products. The underwriter must, in fact, take into account the fitness of the

vessel to carry the particular cargo offered to him as a risk. Liners, owing to their greater speed and special equipment to meet the needs of trade on the route they serve, will usually justify the charge of a lower premium on the cargo carried than in the case of tramp steamers. The slower speed of the latter means a longer exposure of the cargo to the perils of the sea. Yet in the case of nonperishable commodities which may be transported in bulk, such a vessel will be eminently satisfactory in meeting the requirements of speed and economical transportation. In relation to cargo it is also important to note whether the vessel has a double bottom to protect cargo against damage resulting from stranding, whether it is equipped with bulkheads to guard against heavy loss in case of collision or fire, whether its decks are so constructed as to prevent heavy weather damage during a heavy sea, and whether its design is such as to assure a speedy discharge of water that may have forced itself through hatches or other openings.

(6) Various commodities are susceptible to damage from unavoidable causes, like sweating, spontaneous combustion, etc., which are not necessarily the result of improper packing, loading, or handling. In turn the presence of such goods may endanger other contiguous cargo. Liability for such losses are often assumed or avoided by underwriters under special clauses.

(7) The nature of many articles is such as to require skilled loading to prevent unnecessary damage. Thus, where a large single-deck steamer is loaded with miscellaneous cargo it is important to properly arrange the location of various classes of articles, since some may be seriously affected by the crushing weight of the top cargo.

Effect of special trade customs.—Not only must the underwriter be familiar with the inherent peculiarities of all classes of commodities, but he must be acquainted with the customs and usages prevailing in different trades. To a large extent physical environment determines the methods under which transportation of goods is conducted; and the underwriter, being obliged to serve the trade if he desires to do any business, must assume the risks peculiar to the market in question.

Frequently the presence or absence of a large tributary area will determine the method of shipment prevailing at a given port. If the buying occurs in the interior the commodity, as for example, cotton, may be protected by the underwriter through all its stages of transportation, i. e., from the time it is ginned and weighed to the time it is delivered at destination. Similarly, producers in certain localities desire to have their shipments protected from warehouse to warehouse. But if the buying occurs at the seaport, as is usually the case with export trade in grain, the underwriter's liability usually does not attach until the commencement of the ocean voyage. In some markets it is the custom to process raw material, while in others this practice is not resorted to. Some localities have the advantage of deep-water ports, while in other instances the conformation of the coast is such as to necessitate lighterage with its attendant delays and risks. On many routes transshipment is necessary with its accompanying risk of loss or damage, especially to package freight. Enforcement of liability against carriers is also very important to

underwriters, and some communities are much stricter in this respect than are others.

Effect of seasons.—This factor is of decided importance in both hull and cargo insurance. Its significance to hull underwriters becomes apparent when we reflect that many routes of travel are subject to more or less periodic storms of great violence at certain times of the year, or to exceptional ice conditions. So well understood is the seriousness of this factor that on certain waters the season is "closed" during the winter months to various types of hulls as far as the obtaining of marine insurance is concerned, while to other types there is a material increase in the premium rate. Marine policies also abound in clauses which forbid the insured to operate his vessel on certain waters or restrict navigation thereon only to certain seasons of the year. Manifestly the underwriter bases his premium upon the assumption that the observance of such policy conditions will reduce his hazard.

With reference to cargo insurance, the season of the year may be responsible for a number of special hazards. In the first place the nature of the goods may be such as to be seriously affected by cold or heat. Consequently an unforeseen delay in completing the voyage, owing to some marine peril, may produce, in view of the inherent nature of the commodity, a much greater loss in one season than in another. Again, the market for goods of a given type at the port of destination, or a port of refuge, may vary greatly according to the season of the year. Accordingly, in case of damage to such goods, the underwriter's prospect of realizing a fair salvage may be small or even negligible because of the limited need for such goods at that particular time.

But the greatest hazard confronting the underwriter probably lies in the fact that many of the Nation's leading products move most heavily to market at certain seasons of the year, as for example, cotton during the "cotton moving season." At such times enormous values are concentrated in a single locality under exceptionally bad conditions. The great congestion of freight materially increases the fire hazard to the goods as well as the vessels lying at the dock. There is also a tendency at such times to overload the vessel and to unduly overcrowd passageways and other open spaces, thus rendering more difficult the mastering of a fire aboard the vessel. Moreover, heavy seasonal movements, especially when tonnage is scarce, often furnish an inducement for the entrance of vessels in the trade which are not at all adapted for the purpose. So well is this seasonal hazard understood that underwriters have organized associations which have for their purpose the supervision of the loading of vessels during the seasonal period of heavy traffic.

Nationality.—Nationality of the vessel and national characteristics encountered in a given trade are also important factors in determining rates. Certain nations are mainly dependent upon ocean commerce and their citizens are essentially seafaring people. On the average the masters and crews belonging to such nations constitute the most skillful mariners, a matter of great importance in times of distress when the underwriter's interests depend largely upon the quick and correct action of those in charge of the vessel. Again, rates may vary greatly as to the standard of commercial honor in trade, some possessing a high standard, while others are known for

their lack of commercial ethics, especially in connection with the presentation of unworthy claims, or the effecting of arrangements between merchants at a port of refuge to fleece the underwriter by perfunctory bidding in the market in case it becomes necessary to sell damaged goods in order to prevent their total loss. Underwriters have also experienced much greater pilferage losses in certain trades than is the case in other markets.

Duration of the risk.—Aside from the geographical and commercial elements of hazard connected with a given trade, the underwriter must necessarily give thought to the length of time during which the risk is assumed. It makes a decided difference with the underwriter whether the protection on cargo commences with its loading aboard the vessel, or whether it extends to shore cover or even to the entire period of transit from the interior to final destination. Modern business requirements, it should be stated in this respect, have made it increasingly necessary for underwriters to grant full coverage to their clients, and one of the most widely used clauses in cargo insurance is the following:

Including all risks covered by this policy from shippers' or manufacturers' warehouse until on board the vessel, during transshipment, if any, and from the vessel whilst on quays, wharves, or in sheds, during the ordinary course of transit until safely deposited in consignees or other warehouse at destination named in the policy.

Special attention should be directed to the phrase "during the ordinary course of transit." Premiums are presumed to have been based on existing conditions and ordinary delay is regarded as covered by the insurance. Unusual delay, however, is not covered and consequently the warehouse to warehouse clause may be supplemented with additional clauses extending the protection to such unforeseen contingencies. But a further difficulty presents itself when one considers the meaning of "existing conditions." Such conditions may be greatly changed by events as was so well illustrated during the recent World War, when railroad terminals and ports were frequently congested with freight, when the fire hazard during such congestion was enormously increased, when sailings were irregular and often far between, and when the average voyage frequently took two or three times as long to complete as would have been the case under peace conditions. Hence in time of war, or other great emergency, this phraseology must be interpreted very differently than during ordinary times. The fundamental purpose of insurance is to protect, and the underwriter is presumed to have accepted the risk, and to have arrived at the rate, in the light of prevailing conditions.

Policy conditions.—Determination of marine premiums must also involve a consideration of policy provisions which limit the extent of the underwriter's liability. It is one thing, under cargo insurance, to assume liability for all types of losses, and quite another to insure against "total loss only," or to cover only partial losses. Coverage of partial losses, again, may relate only to general average, or to particular average, or to only particular average when caused by a limited number of specified perils.

Reference is had particularly to the numerous so-called "average clauses" used in the business, and all involve an intimate knowledge

of the inherent peculiarities of the commodities to which they apply. Thus the insurance may be "free of average unless general," which means that the underwriter assumes liability only for total losses and general average claims and is not concerned with the great mass of partial losses which result from the leading perils of navigation, such as "stranding, sinking, burning, and collision." Or the policy may be "free of particular average"—a very commonly used form—in which case the underwriter assumes losses resulting directly from stranding, sinking, burning, and collision, the major causes of marine disaster, but is freed from liability for all partial losses which may arise through other causes, such as storm, inferior packing, etc. Such particular average clauses, in turn, may take one of two forms, i. e., be subject to either American or English conditions. Under the first form (F. P. A. A. C. clause, meaning "free of particular average, American conditions") the insurance will be "free of particular average unless caused by stranding, sinking, burning, or collision with another vessel," thus freeing the underwriter from all particular average losses which are not the direct result of the four casualties specifically referred to. The other form (F. P. A. E. C. clause, meaning "free of particular average English conditions"), and one much more commonly used in the American market, makes the insurance "free of particular average unless the vessel or craft be stranded, sunk, burned, or in collision." Unfortunately, the courts have construed this clause to mean that the underwriter is liable for partial losses which may happen on the voyage after the occurrence of any one of the four enumerated perils, although in no sense caused thereby.

In determining rates on cargo and hulls much will depend on the percentages (the so-called "franchise") used in "average" clauses to define the extent of a particular average loss before the underwriter becomes liable. Thus in hull insurance it is customary to provide that the underwriter shall not be liable unless the partial loss amounts to 3 or 5 per cent of a given valuation, while in cargo insurance it is the general practice to group commodities into classes and apply a given percentage to each as the measure of damage before liability attaches. Under certain of these clauses, again, the liability is for the full amount of the damage if the percentage of loss is reached, while under other clauses the underwriter is responsible only for the excess. In hull insurance much also depends upon clauses which define the amount to be allowed by way of deduction when new material is substituted for old in the process of making repairs.

Numerous other policy provisions have a vital bearing upon the risk assumed by the underwriter, but their number is so extremely large as to preclude a complete enumeration. But a few stand out preeminently and their presence or absence materially changes the hazard. They refer to the following:

(1) Through the use of "loading warranties" vessels are often forbidden to take aboard more than a stipulated maximum of certain kinds of commodities, or are prohibited from carrying certain articles at all, or are permitted to stow given kinds of commodities only in certain portions of the hold.

(2) Through so-called "trade warranties," the use of vessels is often restricted to the particular trade, as regards both area and type of cargo, for which they were designed. The recent World War clearly demonstrated the increased hazard involved in transferring vessels built and equipped for the Great Lakes' trade to service in over-seas commerce.

(3) A reasonable valuation should be stated in the policy because the underwriter's liability for partial losses is determined on the basis of a percentage of the value insured.

Conference rate agreements.—The foregoing list of considerations is certainly formidable. It indicates the composite character of a marine premium and shows the importance of accumulating experience along many lines to serve as a basis for properly judging any one of the numerous propositions that may be offered to an underwriter. Small wonder, therefore, that the number of skillful underwriters in the comparatively new American marine insurance market is so limited. Fire insurance, it is true, involves equally numerous rate factors, but the nature of the business is such—risks being stationary and subject almost altogether to local conditions—that all can be handled scientifically under a system of schedule rating applied through some central bureau of an underwriters' association, of which practically all companies are members. Fire insurance rates, in other words, are determined, applied and enforced by all the companies acting in unison. In marine insurance, however, rate making by agreement is the exception and not the rule. It is practiced only where a given trade operates under fairly uniform and stable conditions, or where a group of companies have acquired the business so thoroughly as to make entrance of a competitor extremely difficult.

Thus in the cotton and burlap business, and the grain and lumber traffic on the Great Lakes, groups of underwriters have managed to effect arrangements for the recommendation and charging of uniform rates, the representatives of the companies meeting periodically for the purpose. A similar object, as was explained in a previous chapter, is also served by the Atlantic Inland Association, American Schooner Association, Provincial Underwriters' Association, the Yacht Association, the Steam Schooner Agreement (Pacific coast), and the Postal Insurance and Tourist Insurance Underwriters' Conferences, and until recently by the American Hull Underwriters' Association for the insurance of various fleets of vessels. Such cooperation, if properly conducted and if free from any motive of charging extortionate rates, is to be commended. Most underwriters regret the past inability of the companies to cooperate more fully in the matter of rates. Cooperation leads to the stability of rates, strengthens the underwriters financially by avoiding cut-throat competition, brings about a better supervision of both the underwriting business as well as commercial practices, and tends to eliminate unfair discrimination between shippers and vessel owners. It may also be added that merchants and shippers are not concerned so much with the mere size of the rate as they are with the fact that rates may be unduly competitive, unstable, and discriminatory in character.



RECOMMENDATIONS OF THE COMMITTEE



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In its investigation of marine insurance in the United States your committee has examined exhaustively into the functions, present status, and legislative needs of this branch of insurance. All evidence leads to the conclusions that a strong and independent national marine insurance institution is an absolute necessity to a nation's foreign trade equipment, that such an institution does not exist in the United States to-day, and that it is imperative to adopt ways and means to correct the present impossible situation if this country is to meet the strenuous international rivalry that the new era is certain to inaugurate. There can be no doubt, judging from the manner in which our competitors are now seeking to undermine this branch of underwriting, that marine insurance will be used, as probably never before, as a national commercial weapon for the acquisition and development of foreign markets. Failure to act now in strengthening our marine insurance facilities and placing them in an independent position free from foreign control, can not be regarded otherwise than as the neglect of a duty and an opportunity. The loss of the present rich opportunity will soon be bitterly regretted, but it will be too late to undo the mischief.

Marine insurance is more than a fundamental agency of commerce, and its importance extends beyond the ordinary service of protecting property and credit. Its use as a competitive weapon in international trade has been demonstrated to your committee in many ways. From this viewpoint, the advantages of possessing strong, independent underwriting facilities are undeniable. Their significance is fully discussed in the first chapter of the accompanying report, and a restatement is therefore unnecessary.

In view of the strategic importance of marine insurance in the up-building of foreign trade and a merchant marine, your committee regrets to report that American interests have largely lost their grip on this type of underwriting. Probably no other vital branch of American commerce has passed so extensively under foreign control. (See Chaps. II and III of the accompanying report for a detailed statement of the facts.) In ascertaining the true status of the business the committee was handicapped by the absence of public records, and accordingly found it necessary to submit a detailed questionnaire, under date of August 1, 1919, to all American and foreign companies transacting marine insurance in the United States. The purpose of this questionnaire was to ascertain the extent of consolidation among the companies; the degree of cooperation between underwriters through conferences, associations, reinsurance pools, and other methods of affiliation; the extent of foreign ownership and control of American companies; the amount and ultimate destination of reinsurance; the proportion of the premium income from marine in-

surance derived by each company from (1) hull and freight insurance, (2) cargo insurance, (3) builders' risk insurance, (4) coastwise and inland traffic, and (5) traffic in the foreign trade; and the reasons for not emphasizing insurance in any one or more of these five categories. Replies were received, under oath, from practically all companies, and much additional information was acquired through public hearings and through a voluminous correspondence.

In its combined effect, the information obtained by the committee from all these sources presents a showing which is anything but gratifying to those who wish to see the United States in the forefront of international shipping and trade. In fact, the situation is an impossible one and must not be allowed to continue. Only 62 direct-writing American companies participated in ocean marine insurance during 1918, while six additional companies confined their activities to inland and coastwise waters. But of these companies only a limited number transacted the bulk of the business, two companies receiving nearly one-fourth of the total net marine premium income, and 10 nearly two-thirds. Thirty-six of the companies, or about one-half of the total number, received only 8 per cent of the total net marine premium income obtained by all the companies. Moreover, nearly one-fifth of the direct-writing American companies were found to be foreign owned or very closely allied by having directors or leading stockholders resident abroad. Approximately two-thirds of the marine insurance written in the United States was found to be controlled by foreign underwriters. The great majority of American companies frankly reported that they did not emphasize hull and builders' risk insurance, a very large proportion of these forms of marine insurance being exported directly to the foreign market without appearing in any of the records on this side. American companies place approximately one-half of all their reinsurance with foreign underwriters, while the reinsurance placed by United States branch offices of foreign admitted companies with American companies is only about one-half of the reinsurance placed by American companies with foreign admitted and non-admitted companies. Your committee is also convinced that foreign interests are making a determined effort right now to undermine American marine insurance, such as it is, with a view to reducing it to still smaller proportions.

The reasons for foreign control on so extensive a scale were fully developed during the committee's hearings and were also indicated by many of the replies to the committee's questionnaire. Briefly enumerated, British companies, in particular, are favored by the following factors: A world market of long development, a broader spread of business and broader reinsurance facilities, freedom to combine or to form communities of interest, permission to write numerous kinds of insurance, ease with which American insurance may be exported abroad, a much smaller tax burden, a smaller overhead charge, and dependable support of home merchants and vessel owners. (See Chap. III of the accompanying report for a discussion of these factors.) Your committee regrets to report that there is an appalling absence of such favorable factors with respect to American underwriters. They lack a wide spread of business and adequate reinsurance facilities, are handicapped by restrictive State legisla-

tion which opposes combination for cooperative purposes and denies permission to transact numerous lines of insurance, are burdened with excessive taxation levied according to wrong principles, and, for various reasons, do not seem to enjoy the same whole-hearted support of home merchants and vessel owners, or their brokers, as is so characteristic of the commercial interests of certain foreign countries. Your committee also feels that the serious legislative burdens and restrictions confronting American companies are entirely unnecessary and are largely traceable to a short-sighted policy, continued during many years and dictated by local desires, which views marine insurance as a purely State matter rather than the National institution that it really is.

Your committee has given much thought to available ways and means of bettering conditions. It has reached the conclusion that the subject must be approached from at least three directions, and collective assistance along all these lines is necessary. The remedy lies partly in (1) self-help on the part of American companies through cooperative action, especially in the formation of a comprehensive insurance bureau for reinsurance purposes; (2) Federal assistance, and (3) State help through the removal of unnecessary and paralyzing legislative restrictions.

As the investigation progressed it became increasingly apparent to the committee that adequate reinsurance facilities were essential to a successful national marine insurance institution, and that the absence of such facilities constituted one of the great handicaps to American underwriters. Accordingly, the committee suggested to all American companies the desirability of creating a reinsurance bureau or exchange, composed of American companies and open to all who are willing to conform to reasonable requirements. Such a bureau is now in process of formation, and the committee is hopeful that a satisfactory arrangement will soon be successfully launched for both hull and cargo insurance. Numerous meetings have been held between the committee and underwriting interests, and between the representatives of the various companies. In a project of such dimensions there are many problems that must be met and that require time for their solution. At present the companies have ranged themselves into two groups, one freely expressing a desire to go ahead, and the other, composed mainly of companies whose business associations with foreign representatives have been of long standing, showing some hesitancy, probably because the proposed arrangement would involve some sacrifice. This twofold grouping is quite natural and was expected, and the committee's statement is not offered in a spirit of criticism. Your committee has not only urged both groups to complete the formation of their plans, but has counseled co-operation between all American companies, irrespective of their group affiliations. A comprehensive insurance bureau, the committee believes, will be a big step in the right direction. Representing a union of many companies, it will make possible a united and intelligent action which will command the respect of foreign interests. It will greatly enlarge the reinsurance facilities of the American market, will widen the spread of risk, will have a steadying effect upon the whole business, and will draw into marine insurance much additional capital.

If American companies are willing to cooperate for the national good in the manner indicated, your committee believes that the Federal Government should reciprocate by cooperating with the bureau. To this end the committee believes that the Federal Government should go out of the marine insurance business, and that all departments of the Government which now place insurance with private interests, and, in one important instance, with private interests abroad, should give the same to the bureau if the rates are approximately the same as those charged elsewhere. Only in this way can existing marine insurance capital be encouraged, and new capital attracted to the business. The United States Shipping Board's large business should be utilized in the interest of a national marine insurance institution, if this can be done without material loss to the board. National interests require much more than a mere solution of the Shipping Board's temporary problem, i. e., the Shipping Board's enormous equity in vessels should be utilized for the permanent welfare of marine insurance in this country. Your committee is happy to state that American companies have expressed a willingness to take over the Shipping Board's insurance on a cost basis, i. e., the members of the proposed bureau are neither to incur a loss nor to make a profit. This proposition, it should be said, is now being formulated in detail. Certain companies have suggested to the committee that such a cost-basis proposition will be agreeable since it will be a "distinct advantage to them to have a record of all Shipping Board vessels and of their captains, engineers, and mates, to enable them more intelligently to make rates on cargoes and on the hulls when taken over by private interests." It has also been suggested that the experience gained from the handling of the Government's business "will enable American underwriters to write insurance more intelligently than the foreign market and to create an American hull market capable of handling insurance on hulls flying the American flag, thus keeping the business in this country." As the Shipping Board sells its vessels, it is believed that the proposed plan will assist in placing American companies in a position to retain a large share of the values thus sold, with the result that the companies will greatly enlarge their volume and spread of business and thus relatively reduce their overhead expense.

In addition to the foregoing, your committee believes that the Federal Government may be of further assistance in several respects, and desires to recommend the following:

(1) That marine underwriters should be assured of the legality of combinations and associations designed to facilitate reinsurance or to extend underwriting activities to foreign countries. A surprisingly large number of underwriters expressed themselves to the committee as fearful of the legal consequences that might attach to the creation of such associations or combinations. To this end, it will be advisable, and even if unnecessary can do no harm, to free all such cooperative efforts from the possible operation of the Sherman and Clayton Antitrust Acts.

(2) That the Federal 1 per cent tax on marine insurance premiums be repealed. There should be no taxes on such insurance except on net profits.

(3) That legislation be enacted for the incorporation, on a liberal basis, of reinsurance companies in the District of Columbia.

(4) That a liberal marine insurance law be enacted for the District of Columbia. This recommendation was heartily supported before the committee by the Association of Marine Underwriters of the United States, chiefly on the ground that it would serve as a model for duplication in the various States.

(5) Your committee has also had its attention called by many underwriting interests to the peculiar status of marine adjusters in this country as contrasted with their quasi-judicial position in other countries. Abundant evidence was offered to show that the existing system is productive of serious irregularities. The committee feels that the question of whether adjusters should have any business connection with either brokers or underwriters is worthy of further investigation.

While much can be accomplished along the lines suggested above, there remain for consideration the legislative disabilities imposed by the several States. These are very serious and were bitterly opposed by underwriters appearing before the committee. They were a unit in recommending (1) the removal by the States of restrictions on the kinds of insurance (other than life insurance) which may be transacted by any one American company; (2) changing the system of taxing gross premiums to taxation on net profits; (3) revision of the insurance laws of the several States, which are often conflicting and which apparently were drawn primarily with regard to the regulation of fire rather than marine insurance; (4) greater liberality with reference to American companies seeking to enter the foreign field, especially with reference to recognition of foreign deposits in the financial statements of the companies, and (5) removal of restrictions against permitting groups of companies to unite, under proper regulations, to form companies or associations for the purpose of assuming the reinsurance needed by the group, or to undertake operations in foreign countries. Your committee is in hearty accord with all these recommendations. But the difficulty is that the Federal Government has no jurisdiction over these matters. It may seem, therefore, that the Federal Government need not interest itself in this phase of the problem. The committee, however, felt that it should approach the difficulty in the only way possible, viz, through direct appeal to the properly constituted authorities of the several States. Accordingly, the legislative disabilities referred to were summarized and embodied in a communication which was submitted jointly by the committee and the United States Shipping Board, under date of December 19, 1919, to the governors and insurance commissioners of all the States. In this communication special attention was called to the essentially national and international character of marine insurance and the fact that "the immediate situation requires that the legislative policy of the several States should not run counter to the needs of the Nation as a whole." Replies have been received from nearly all marine States, and the response was excellent. The recommendations were heartily indorsed, cooperation was promised, and in a number of cases a request was made for specific suggestions or a draft of the desired legislation.

In concluding its report, your committee desires to state that its recommendations are based largely on the assumption that American companies will cooperate and seek to help themselves through the creation of an insurance bureau. Should this assumption prove

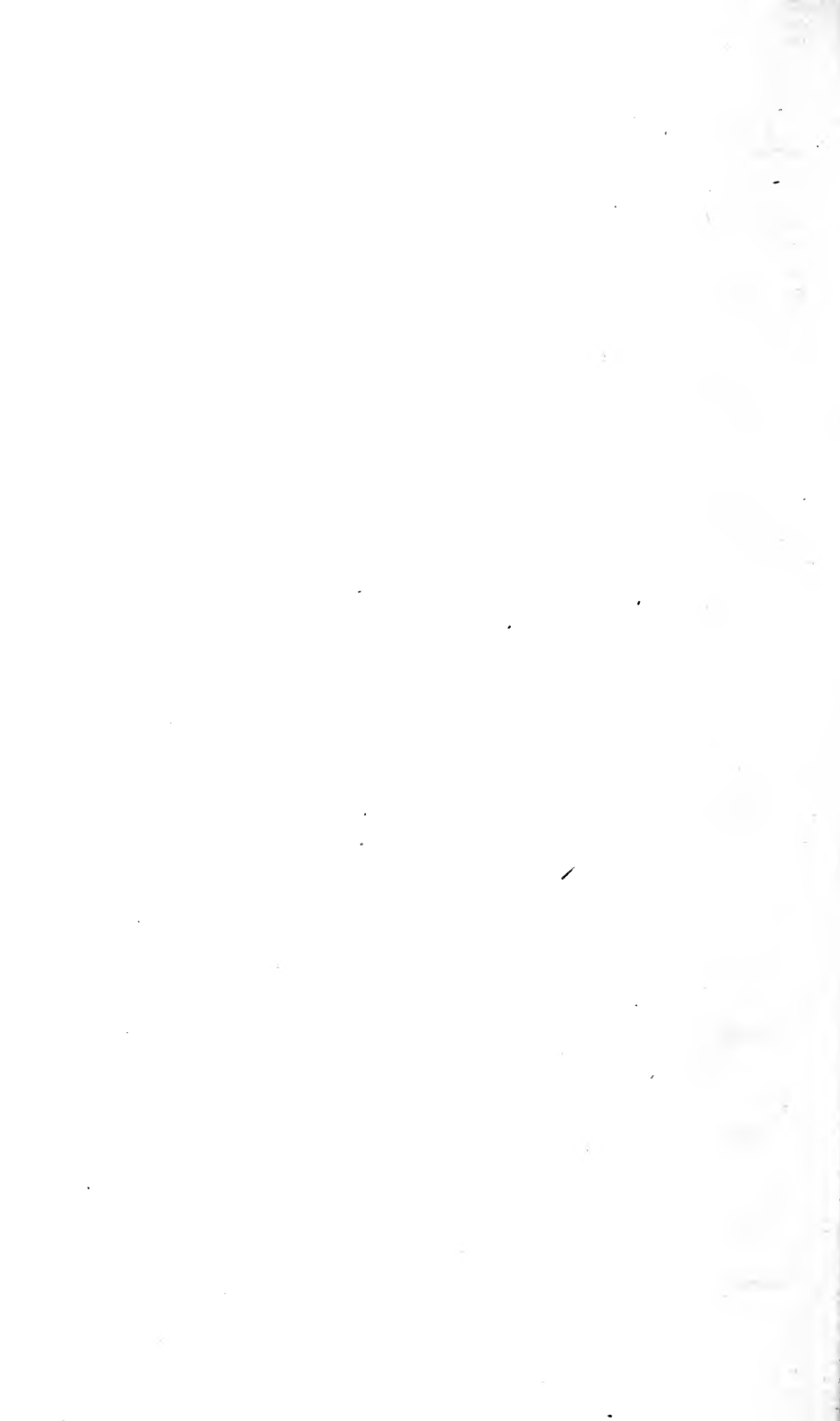
wrong, an entirely different situation will, of course, present itself. Present conditions, as already stated, are impossible and can not be allowed to continue. While the committee favors marine insurance conducted by private interests, it can not be unmindful of present woefully unsatisfactory conditions. The national welfare must be the first consideration. Should the contingency arise that American companies will fail or refuse to cooperate on a comprehensive scale, then your committee is decidedly of the opinion that the Government should remain in the marine insurance business even to the extent of greatly enlarging its operations. Your committee is certain that its position in this respect is understood by the companies because it has been emphasized to them repeatedly and earnestly.

(Signed)

FREDERICK R. LEHLBACH, *Chairman*,
GEORGE W. EDMONDS,
CARL R. CHINDBLOM,
DAVID H. KINCHELOE,
LADISLAS LAZARO,

*Subcommittee on Miscellaneous Business of the
Committee on Merchant Marine and Fisheries.*

APPENDICES



APPENDIX I.

LETTER SUBMITTED BY THE SUBCOMMITTEE ON THE MERCHANT MARINE AND FISHERIES AND THE UNITED STATES SHIPPING BOARD TO GOVERNORS AND STATE INSURANCE COMMISSIONERS.

The undersigned desire to emphasize the urgent necessity of freeing American marine insurance from serious disabilities imposed by many of the States. Marine insurance, unlike other forms of insurance, is essentially national and international in character. Its necessity for the successful maintenance of a large merchant marine and a growing foreign trade is universally recognized. But independence of action in these two important fields requires that this Nation have a strong marine insurance institution, free from foreign control and capable of serving independently and fully the national interest. American shipowners and merchants must be prepared to meet the competition of other nations, and to this end should not be handicapped by the absence of marine insurance facilities at home, while foreign nations use their well-developed underwriting facilities to comb out profits and to control directly and indirectly many of the leading lines of international commerce.

An extensive investigation by the undersigned shows American marine insurance to be significant chiefly in the number of companies engaged rather than in their importance and stability. Of the 63 direct-writing American companies participating in ocean marine insurance, 8 are foreign controlled and at least 5 more very sympathetically associated. Of the uncontrolled companies, approximately one-fifth derive 96 per cent of their total net premium income from insurance other than marine, one-half at least 90 per cent, two-thirds at least 80 per cent, and three-fourths at least 70 per cent. Excluding the 10 leading companies, all the remaining uncontrolled American companies received during 1918 only 10 per cent of their net premium income from marine insurance.

Of the total marine insurance originating in the United States, at least two-thirds is controlled by nonadmitted foreign companies or by the branch offices of admitted foreign companies, and only one-third by American companies. At least 20 per cent of all marine insurance originating within the United States is exported directly abroad to be placed with nonadmitted underwriters or with the home offices of admitted foreign companies. In the case of American hull insurance at least 50 per cent is thus exported, and much the same situation also exists in the case of builders' risk insurance.

Moreover, owing to the absence of a domestic market sufficiently large to assure a proper spread of risks through reinsurance, many American companies are compelled to place a very substantial part of their reinsurance with foreign underwriters, and to a very large extent with underwriters not admitted to transact business within the United States. But this reinsurance, it should be noted, goes abroad with very little being given to American companies in exchange. With reference to hull insurance, particularly, the overwhelming majority of American companies report that they do not emphasize this branch of the business because of its unprofitableness, and because the competition of companies located in foreign countries and the facility with which owners and brokers export marine insurance to such countries preclude any hope of success.

The data contained in the accompanying report will substantiate further the facts as here related. Even at this time the undersigned have every reason to believe that a well-directed competitive campaign is now being waged by foreign underwriters with a view to again reducing American marine insurance to the insignificant position of prewar years.

From a national viewpoint the existing situation is anything but desirable. There is no justification for needlessly allowing tens of millions of dollars of premiums to flow to the foreign underwriting market. American underwriters are fully alive to the situation and desire to make a change. Yet the prospect of improvement seems slight unless the several States see fit to free American underwriters from needless burdens and restrictions. Considering these in order, the undersigned desire to make the following recommendations:

(1) Removal by the States of restrictions on the kinds of insurance (other than life insurance) which may be transacted by American companies. Foreign competing companies have the privilege of writing many forms of insurance, and have found this privilege a great source of strength. In recent years there has been a steady absorption by British companies of other liability, casualty, and workmen's compensation companies through actual amalgamation or some form of community of interest. But whatever the method, the motive is the same, viz, an extension of business, a smaller overhead charge, a reduced outlay along many lines, and an ability to secure the support and accommodate the full insurance demand of large concerns. American marine insurance companies are barred from writing casualty and compensation forms of insurance, and protection and indemnity insurance. They are almost a unit in supporting this recommendation.

(2) Changing the system of taxing gross premiums to taxation on net profits. This is the British system and is just, whereas the taxation of gross premiums is neither scientific nor equitable, and has nothing to support it except ease of collection. A hull insured for \$100,000 at 5 per cent in the United States pays a tax on the premium of approximately \$200, against about \$25 in England. Gross premium taxation has created a real disability for American companies, whereas the substitution of a tax on net profits would do much toward placing them on an equal footing with their foreign competitors. Moreover, a premium written may end in a loss, without, however, any consideration being shown under a gross premium tax.

(3) Revision of the insurance law of the several States, which is often conflicting and which apparently was drawn primarily with regard to the regulation of fire rather than marine insurance. Foreign competitors are under no such disability. American marine insurance companies are a unit in recommending that steps be taken to secure greater uniformity in State legislation with reference to marine insurance, with a view to obviating statutory conflicts and a needless multiplicity of expensive regulations.

(4) Greater liberality with reference to American companies seeking to enter the foreign field directly, or which may have found it necessary to reinsure in foreign countries in order to secure a proper spread of risk. Due recognition should be given to the American company in its financial statements as regards (1) deposits required to be made in foreign countries in order to do business there, and (2) sums owing to it from reinsurers abroad.

(5) No obstacles should be placed in the way of permitting groups of American companies to unite, under proper regulations, to form companies, associations, or pools for the purpose of assuming the reinsurance needed by the group, or to undertake operations in foreign countries. Among the greatest handicaps to American marine insurance companies have been the absence of sufficient reinsurance facilities in this country and the heavy reinsurance placed abroad with comparatively little reciprocity in this respect from foreign underwriters. Combination and working cooperation between underwriters are fostered abroad. This gives the advantage of one overhead charge. It facilitates the wide spread of business. It also gives great financial strength and comity of action.

The foregoing recommendations are offered in the hope that it may be possible in the national interest to secure comity of action on the part of the proper authorities in the several States. This Nation now has a large merchant marine and prospects for a growing foreign trade. But we must not be blind to the fact that the immediate future will be a time of intense international rivalry for commercial position, and in this competitive contest marine insurance will assume a very important rôle. Nothing should be left undone which will legitimately attract new capital into the marine insurance business, or will encourage the capital already invested to attempt greater things. The immediate situation requires that the legislative policy of the several States shall not run counter to the needs of the Nation as a whole. It is with this hope that the aforementioned recommendations are respectfully submitted.

For the United States Shipping Board.

JOHN BARTON PAYNE, *Chairman.*

For the subcommittee on the Merchant Marine and Fisheries.

FREDERICK R. LEHLBACH, *Chairman.*

APPENDIX II.

SCHEDULE OF INQUIRIES SUBMITTED (UNDER DATE OF AUG. 1, 1919, IN PURSUANCE OF H. RES. 97) BY THE SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES TO DOMESTIC AND FOREIGN MARINE INSURANCE COMPANIES TRANSACTING BUSINESS IN THE UNITED STATES.

(The following inquiries were arranged in a schedule of 27 pages. Under each inquiry, where necessary, suitably ruled columns were provided to facilitate the classification of the information requested.)

1. Give the names and addresses of the directors.
2. Give the names, titles, and official addresses of the officers.
3. Give the names of all insurance companies any portion of whose stock is owned or controlled by your company. State the amount of stock acquired in each company and the date of acquisition.
4. Give the names and addresses of the 10 stockholders (other than insurance companies) owning the largest amounts of stock in the company.
5. Give the names and addresses of all insurance companies owning or controlling any of the stock of your company, the amount owned or controlled by each and the date or dates of acquisition.
6. Is your company affiliated with any other insurance company or companies doing a marine-insurance business through any agreement, understanding, or working arrangement (other than those pertaining to reinsurance)? If so, name all the companies involved in each such agreement, understanding, or working arrangement; and state the terms of each such agreement, understanding, or working arrangement.
7. If your company is a member of, or affiliated with, or has any understanding with associations or conferences which have for their purpose the making or enforcement of rates, the framing and enforcement of policy conditions, the effecting of reinsurance, the facilitation of loss adjustments, or for any other purpose, give the names and addresses of all such associations and conferences, stating the character of each and the nature of your company's connection or affiliation with the same.
8. If any of the associations or conferences with which your company is affiliated relate to the making or enforcement of rates, state in detail the terms of the arrangement.
9. Specify the proportion of your premium income from marine insurance derived from (1) hull and freight insurance, (2) cargo insurance, and (3) builder's risk insurance.
10. If your company does not emphasize hull insurance, give the reasons for not emphasizing the same.
11. If your company does not emphasize builders' risk insurance, give the reasons for not emphasizing the same.
12. Specify the proportion of your company's total premium income from marine insurance derived from (1) coastwise and inland traffic, and (2) traffic in foreign trade.
13. If your company does not emphasize traffic in the foreign trade, give the reasons for not emphasizing the same.
14. What proportion of the total marine risks reinsured by your company with other companies during 1918 was placed with foreign (alien) companies?
15. Is your company a party to any reinsurance pool, reinsurance treaty, or other reinsurance agreement or arrangement, with any other marine insurance company or companies? If so, name the companies involved in each such pool, treaty, or other agreement or arrangement. Also explain the terms governing each such pool, treaty, agreement, or arrangement.
16. Do you expect to continue in the marine insurance business as regards traffic in the American foreign trade?
17. Give such suggestions and state such circumstances as you feel should be considered by the committee in preparing legislation which may be advantageous and necessary to promote the advancement of the American merchant marine, American commerce, and marine insurance.

APPENDIX III.

SPECIMEN OF INTERREINSURANCE AGREEMENT.

Memorandum of agreement entered into by and between [here follow the names of the various companies who are parties to the agreement].

It is hereby understood and agreed that the above-mentioned companies enter into this interreinsurance contract, each with the others, covering their respective interests on all hulls, cargoes, freight lists and charges, on all vessels located on inland waters of the United States, which may be insured in either of said companies through ———, their representatives, at ———, or by any of their subagents, in the territory operated and under the jurisdiction of their said representatives, ———. It being understood and agreed that this agreement does not embrace any business covered by the ——— association, nor certain lines which are not acceptable to all parties hereto.

The business written under the interreinsurance agreement herein formed is to be apportioned as follows, to wit: [Here again follows an enumeration of all the companies party to the agreement, and after the name of each company the percentage indicating the company's participation in any business written.]

All receipts, losses, and expenses under this agreement are to be divided between said companies by ——— in the ratios as above stated.

The maximum line contemplated under this agreement on any one venture, either on hull, cargo, freight list, or charges, or on all combined, is to be ——— (\$——) dollars, and any sum in excess of that amount is to be reinsured by ———, where and when possible and to the best advantage, immediately upon receipt of information of such over line; but should no such reinsurance be secured, it is understood and agreed that each company party hereto, assumes its proportionate share of any such excess.

The notes received by each company for premiums shall be sent to such company monthly with their regular accounts, and charges (less discount of ——— per cent) pro and con shall be made in said accounts to adjust any differences that may arise between the aggregate of each company's notes and its share of the premiums under this agreement. Any loss occurring in the collection of premium notes shall be charged back to the companies of the agreement.

Each company of this agreement further binds itself to assume and pay its proportion of all costs and expenses of any suit brought against any company hereto and arising from business written hereunder.

It is further understood and agreed that all previous agreements entered into by any of the companies party hereto and in conflict with this agreement are hereafter null and void from the date this agreement is put into effect, except as to business reported to and/or binding under such agreements prior to said date.

This agreement to take effect on all business for which ——— receive reports on and after December 21, 1916, and may be terminated at the pleasure of either party to it, by giving ——— (——) days' notice in writing to that effect, or sooner, if by mutual consent.

In witness thereof we have hereunto subscribed our names as of the date above mentioned.

THE ——— MARINE INSURANCE Co.,

By ———, President.

THE ——— INSURANCE Co.

By ———, President.

[Here follow the names of all the remaining companies, together with the signatures of the responsible officers.]

APPENDIX IV.

SPECIMEN OF REINSURANCE AGREEMENT.

Reinsurance agreement between ——— (hereinafter called the "reassured") and ——— (hereinafter called the "reinsurers").

It is hereby agreed by and between the parties hereto as follows:

ARTICLE I.

The reassured agree to cede to the reinsurers, and the reinsurers agree to accept, the agreed proportion of amounts in excess of the retained line (as set forth in the table of lines annexed hereto) of all marine insurance and war risk insurance underwritten, directly, or by way of reinsurance, by the reassured through ———, of ———, or through any offices, branches, agencies, or subagencies reporting to or controlled by ———, including risks on shore and inland waters; per vessel or vessels, steamers, motor-ships, sailing vessels, barges, and/or other conveyances, at and from any ports and/or places to all other ports and/or places, and including insurance on property or other insurable interests of every character, excepting hulls.

ARTICLE II.

This contract is to cover—

\$-----, part of \$-----, excess of \$-----, per class 1	} As per table of lines annexed.
\$-----, part of \$-----, excess of \$-----, per class 2	
\$-----, part of \$-----, excess of \$-----, per class 3	
\$-----, part of \$-----, excess of \$-----, per class 4	
\$-----, part of \$-----, excess of \$-----, per class 5	
\$-----, part of \$-----, excess of \$-----, per class 6	

ARTICLE III.

In arriving at the amount of the excess under this reinsurance, all interests insured by the reassured shall be taken into account excepting insurances upon duties and upon freights payable upon delivery of goods (when insured in conjunction with the goods), insurances under transit floater, tourist floater, and under parcels post forms of policies; and there shall be deducted from the gross line of the reassured: (a) Any amounts reinsured by special open policies, contracts, or covers for fixed proportions or excesses of specially named policies of the reassured; (b) any amounts which have to be declared to other underwriters under the terms of any sharing or pooling agreement; (c) any amounts reinsured by other agents, etc. of the company than upon the business of such other agencies; (d) any amounts which attach under excess or sharing reinsurance contracts arranged specifically by the head office of the reassured and not through ———.

Although hulls are to be taken into account in arriving at the amount of an excess this reinsurance is not to cover upon hulls.

Upon insurance on duties, and on freights payable upon delivery of goods (when insured in conjunction with the goods) this reinsurance covers its share of such risks (although not taken into account in fixing the excess) in the same measure as it attaches upon the goods upon which the duty and freight accrue and in addition thereto, receiving a proportionate share of the premium upon such duty and freight.

In the case of risks or portions of risks declarable in the first instance under this cover cumulating through being transhipped to be forwarded to destination, the liability of the reinsurers shall continue upon the basis of the amounts declarable by the original vessels without limit of liability. But when transportation naturally involves transshipment or transshipments then at the option

of the reassured each stage or section of such transportation may be deemed and designated at the time of declaration of risks on any vessel a distinct and separate voyage, and in each such case the excess shall be ascertained and measured in the same manner and to the same limit as though each stage or section were an original and complete voyage and as though all shipments thereon were specifically made for each stage or section only. When voyages are so divided, the reinsurers' liability by original vessel or vessels ends with delivery to the vessel or vessels taking transshipped goods, and upon the latter vessel or vessels the reinsurers' liability begins with such delivery.

ARTICLE IV.

This reinsurance shall attach automatically at the same time as the risk attaches under the original insurance or reinsurance and shall cover until such original insurance or reinsurance has terminated in the interior or elsewhere; it shall cover the same risks and be subject to the same clauses, terms, rates, premiums, valuations, and other provisions as the original insurance, and the obligation of the reinsurers shall be the same as that of the reassured under their original insurance or reinsurance, including liability for sue and labor charges. If the reassured, after a risk is covered, shall consent to any correction or alteration of their policies, certificates or binders, or to any change, modification or increase of the risk insured, the liability of the reinsurers shall be similarly altered, changed or increased automatically and without further notice to or consent by the reinsurers.

ARTICLE V.

It is agreed that in the event of the reassured desiring to reduce their ordinary reserved lines, they shall be at liberty to do so by special outside reinsurance, but all such reinsurance shall be considered as having been placed for joint account of the reassured and the reinsurers; and the reinsurers shall pay their proportion of any such reinsurance premiums and shall in the same manner receive their proportion of any claims collected under such reinsurance; excepting in the case of reinsurance taken out to reduce lines owing to the vessel being overdue or stranded, in which event reinsurance shall be for account of the reassured only.

ARTICLE VI.

Declarations, alterations, and cancellations, of all risks attaching hereunder shall be made in bordereau form to — as soon as practicable after the reassured have knowledge thereof. If through inadvertence the reassured shall fail to give any such declaration, or notice of any such alteration or cancellation, the liability of the reinsurers shall not be affected by such failure, provided the reassured give notice thereof as soon as their attention (or the attention of —) is called to their failure to give such notice.

ARTICLE VII.

All losses shall be adjusted by the reassured and such adjustment shall bind the reinsurers both as to the fact of loss and the amount of liability; and the reinsurers agree to pay their proportion of all losses, as settled by the reassured, upon receiving reasonable evidence of the amount paid by the reassured, whether such payment be strictly in accordance with the policy or by way of compromise or ex gratia, or otherwise.

The reassured shall have the right to draw immediately at not less than three days' sight on the reinsurers for their proportion of any loss where such proportion amounts to two thousand dollars or more, and the reinsurers agree to honor such drafts. Other losses shall be settled in account.

The reassured shall hold, at the office of — at the disposal of the reinsurers, all original loss documents.

ARTICLE VIII.

In the event of the reassured engaging in litigation, whether for the purpose of collecting premiums, resisting losses or endeavoring to effect recoveries from carriers or others, the reinsurers shall bear their pro rata share of the

expense of such litigation; and shall be entitled to their pro rata share of any recoveries effected. The reassured shall have the right to extend credit for premiums and if they shall decide that any premiums are not collectible (whether before or after commencement of suit) the reinsurers shall bear their pro rata share of the loss of such premiums.

All postage, telegraph, cable, and similar charges in connection with the matters covered in this contract shall be borne by the sender unless otherwise agreed.

ARTICLE IX.

The reassured shall pay the reinsurers the original gross rate received, less original discounts, rebates, and returns (except brokerage and/or commission).

The reinsurers will pay to the reassured as a contribution on account of the commissions payable by the reassured to the general agents, State agents, sub-agents, etc., including brokerage and on account of all other charges and expenses whatever, except loss expenses, license fees, etc., a commission of _____ on the amount of the net premiums hereunder.

The reinsurers agree to allow the reassured a further _____ per cent (— per cent) to cover taxes, license fees, and similar expenses.

The reinsurers agree to make to the _____ an allowance of _____ per cent (— per cent) on the annual net profits to be calculated as follows:

The contingent commission shall be figured upon the net profits of the business ceded by the reassured to the reinsurers for the year ending on the _____ day of _____, 19—, and for each succeeding year during the term of this agreement, but the calculation shall not be made for this and for each following year until a further 12 months have elapsed so that all losses under cessions made in the said year but paid in the following 12 months shall be included. The first calculation shall therefore be made as soon as practicable after the day of _____, 19—, and annually thereafter, upon the following basis:

The items of credit shall be (a) the net premiums (meaning thereby gross premiums, less cancellation and return premiums) on reinsurance ceded; (b) loss reserve from the previous year.

The items of debit shall be (a) the commission, etc., as provided herein; (b) losses paid during year and the 12 months following under all policies issued in the said year, after deducting recoveries and salvage; (c) reserve for all known losses incurred but not paid at the end of the second year. Such reserve for all known losses incurred but not paid to be carried forward to the credit of the next year which will be debited with the losses, be they more or less, which the said reserve and additions are estimated to cover.

The calculation of the profit contingent commission shall be made by _____ and after confirmation by the reassured, any profit contingent commission payable to the reassured shall be immediately paid.

In case notice of cancellation of this agreement shall be given by either party, no profit and loss statement shall be made until after the termination of all risks and settlements of all losses applying to this agreement.

ARTICLE X.

As security for the due performance of the obligations of the reinsurers under this agreement and to provide the legal reserve demanded by the insurance departments of the various States of the United States, the reinsurers shall at all times leave in the hands of the reassured a sum (hereinafter called the "deposit") equal to 50 per cent of the gross premiums (less rebates and returns) credited to the reinsurers under this agreement, until the amount equals 50 per cent of the total premiums of the preceding 12 months.

The "deposit" is to be retained by the reassured, who agree to deposit the amounts so retained with first-class American banks or trust companies, and to credit the reinsurers with the interest credited thereon by such banks or trust companies.

The said deposit shall be retained until the expiration of all reinsurances, and the reinsurers shall be entitled to delivery of the said deposit when all said reinsurances under this agreement have ceased, provided always that the reassured shall be entitled to deduct from the said deposit the reinsurers' proportion of any outstanding loss or losses, and such deductions shall be adjusted on final settlement of such loss or losses.

ARTICLE XI.

The reassured shall furnish to the reinsurers monthly accounts current within 26 days after the close of each month. Remittances for the balance of each month's account shall be made, if by the reassured, by banker's sight draft to the order of ———. If the remittance is to be made by the reinsurers, the remittance shall be by sight draft on New York to the order of the reassured.

The first remittance shall be made by the reassured 90 days after the date the first account is rendered for the balance of the first month's account, and so on month by month.

ARTICLE XII.

If any dispute shall arise between the parties hereto with respect to any transaction arising out of this agreement, the same shall be referred to arbitrators, who must be insurance or reinsurance managers, one to be chosen by the reinsurers and one by the reassured, and a third to be chosen by these two before they enter upon the arbitration. Neither of the arbitrators nor the umpire shall be in the service of either the reinsurers or the reassured, or any of them.

The arbitrators and umpire shall interpret this present agreement rather as an honorable engagement than as a merely legal obligation, and their decision, or that of the majority of them, shall be final and binding upon the contracting parties without appeal. The arbitrators and umpire are relieved from all judicial formalities, and may abstain from following the strict rules of law.

In default of either party appointing any arbitrator within one month of the other party requesting it to do so, the latter shall name both arbitrators, and they shall elect an umpire as above stipulated. The said term of one month, however, is to date from the day on which such notice is received by the opposite party.

Unless the arbitrators shall grant an extension, each party shall submit its case to the arbitrators within one month after the umpire has been selected; and the arbitrators shall give their award in writing at the earliest convenient date. Any arbitration shall take place in New York unless otherwise agreed.

ARTICLE XIII.

This agreement shall take effect as to all risks covered by the reassured on vessels sailing or to sail on and after ———, excepting as to risks declared to other reinsurers because of earlier attachment.

This agreement shall continue in effect until terminated by a written notice served by one party upon the other that it elects to terminate this agreement on any of the usual quarter days (Mar. 31, June 30, Sept. 30, or Dec. 31) not less than six months after the service of such notice, and on such quarter date the contract shall come to an end as to all risks as to which the reassured shall not have become bound provisionally or finally prior to such date. The obligations of the parties as to all risks as to which the reassured shall have become bound provisionally or finally prior to the said quarter days shall not be affected by such cancellation.

All notices of bordereaux and accounts herein required to be sent to the reinsurers and all payments required to be made to them shall be deemed properly made and given if made and given to ———.

ARTICLE XIV.

If either party shall go into voluntary or involuntary liquidation, bankruptcy, or receivership the other party may forthwith by written notice terminate this agreement as to all risks thereafter written, and should such notice be served by the reassured they shall be entitled to hold all sums of money then or thereafter due to the reinsurers as a reserve against losses until the expiration of all existing risks.

In witness whereof the parties hereto have caused these presents to be executed by their officers or agents thereunto duly authorized, this ——— day of ———, 19—.

APPENDIX V.

Table giving the 1918 record of American marine insurance companies.

	Name and home office.	Capital.	Surplus.	Surplus to policy-holders.	Total admitted assets.	Type of business.	Total net premiums.	Net premiums, marine and inland.	Net premiums, motor vehicle, tourist baggage, and registered mail.	Net marine and inland premiums, less motor vehicle, tourist baggage, and registered mail.
		1	2	3	4	5	6	7	8	9
1	Aetna Insurance Co., Hartford.....	\$5,000,000	\$8,405,099	\$13,405,099	\$31,983,192	Fire and marine.	\$18,318,256	\$3,382,549	\$671,536	\$2,711,013
2	Agricultural Insurance Co., Watertown.....	500,000	1,921,273	2,421,273	6,158,838	do.	3,632,516	751,922	202,873	549,849
3	Alliance Insurance Co., Philadelphia.....	750,000	750,000	1,500,000	3,833,350	do.	2,052,760	695,430	127,064	568,866
4	American and Foreign Marine Insurance Co., New York City.....	300,000	1,623,805	1,923,805	2,311,166	Marine.	876,855	876,855	355,658	521,197
5	American Eagle Fire Insurance Co., New York City.....	1,000,000	1,028,180	2,028,180	3,262,410	Fire and marine.	1,507,243	486,932	23,375	463,557
6	American Equitable Assurance Co., New York City.....	400,000	377,768	777,768	1,947,838	do.	1,499,110	514,905	.....	514,905
7	American Insurance Co., Newark.....	2,000,000	2,700,512	4,700,512	13,623,744	do.	6,678,877	865,064	397,315	467,749
8	American Merchant Marine Insurance Co., New York City.....	300,000	326,475	626,475	3,056,439	Marine.	871,258	871,258	.....	871,258
9	Assurance Underwriters of America, New York City.....	.....	15,771	15,771	167,218	Fire and marine.	196,451	196,451	.....	148,464
10	Atlantic Mutual Insurance Co., New York City.....	.....	6,881,835	6,881,835	19,480,307	Marine.	4,927,955	4,927,955	6,837	4,921,118
11	Automobile Insurance Co., Hartford.....	2,000,000	1,329,880	3,329,880	9,204,570	Fire and marine.	7,834,171	3,895,012	1,531,861	2,363,151
12	Boston Insurance Co., Boston.....	1,000,000	3,365,319	4,365,319	11,077,908	do.	7,565,251	3,357,669	814,297	2,543,372
13	Camden Fire Insurance Association, Camden.....	1,000,000	984,690	1,984,690	5,356,923	do.	3,601,538	332,412	127,405	205,007
14	City of New York Insurance Co., New York City.....	600,000	408,418	1,008,418	2,050,147	do.	1,106,025	57,908	.....	57,908
15	Columbia Insurance Co., Jersey City.....	400,000	707,701	1,167,701	1,456,599	Marine.	573,580	573,580	407,873	165,707
16	Columbian Insurance Co., Indianapolis.....	216,118	56,062	272,180	529,198	Fire and marine.	340,447	71,420	.....	71,420
17	Commonwealth Insurance Co., New York City.....	500,000	1,082,499	1,582,499	3,471,286	do.	2,000,667	420,915	397,758	23,157
18	Concordia Fire Insurance Co., Milwaukee.....	750,000	439,114	1,249,114	3,402,187	do.	2,022,663	76,811	.....	76,811
19	Connecticut Fire Insurance Co., Hartford.....	1,000,000	2,028,968	3,028,968	9,442,674	do.	6,376,633	919,662	336,188	486,474
20	Continental Insurance Co., New York City.....	10,000,000	11,479,653	21,479,653	37,765,025	do.	13,833,412	1,722,164	886,718	1,335,446

Table giving the 1918 record of American marine insurance companies—Continued.

	Name and home office.	Capital.	Surplus.	Surplus to policy-holders.	Total admitted assets.	Type of business.	Total net premiums.	Net premiums, marine and inland.	Net premiums, motor vehicle, tourist baggage, and registered mail.	Net marine premiums, and inland, less motor vehicle, tourist baggage, and registered mail.
		1	2	3	4	5	6	7	8	9
21	Detroit Fire and Marine Insurance Co., Detroit.....	\$500,000	\$1,164,920	\$1,664,920	\$2,815,480	Fire and marine.....	\$1,102,071	\$9,444	.....	\$9,444
22	Dixie Fire Insurance Co., Greensboro.....	500,000	232,711	732,711	1,156,950	do.....	538,899	88,681	.....	88,681
23	Equitable Fire & Marine Insurance Co., Providence.....	500,000	493,145	983,145	1,623,806	do.....	773,102	252,423	\$9,185	243,238
24	Equitable Underwriters of New York, New York City.....	1,000,000	320,412	320,412	878,865	do.....	605,527	404,721	.....	404,721
25	Federal Insurance Co., New York City.....	1,000,000	1,321,964	2,321,964	5,537,434	do.....	4,723,135	3,938,956	440,036	3,498,920
26	Federal Union Insurance Co., Chicago.....	200,000	83,732	283,732	617,478	do.....	416,931	47,009	.....	47,009
27	Fidelity-Phenix Fire Insurance Co., New York City.....	2,500,000	6,815,197	9,315,197	23,086,726	do.....	12,194,218	1,609,823	384,624	1,225,239
28	Fire Association of Philadelphia, Philadelphia.....	1,000,000	3,577,569	4,577,569	13,474,704	do.....	1,602,656	497,918	44,508	453,410
29	Fireman's Fund Insurance Co., San Francisco.....	1,500,000	3,621,355	5,121,355	17,905,776	do.....	13,616,648	6,736,041	1,717,376	5,018,665
30	Fireman's Insurance Co., Newark.....	1,250,000	2,246,244	3,496,244	8,531,080	do.....	4,655,568	633,483	57,513	575,970
31	Franklin Fire Insurance Co., Philadelphia.....	500,000	681,081	1,181,081	3,771,283	do.....	1,592,461	402,383	239,534	162,849
32	Glens Falls Insurance Co., Glens Falls.....	500,000	2,531,482	3,031,482	7,880,109	do.....	4,536,348	773,557	438,183	335,374
33	Globe National Fire Insurance Co., Sioux City.....	1,000,000	414,181	1,414,181	1,453,461	do.....	59,401	4,109	.....	4,109
34	Globe & Rutgers Fire Insurance Co., New York City.....	700,000	8,776,941	9,476,941	30,342,403	do.....	20,237,101	7,734,664	376,225	7,358,439
35	Great American Insurance Co., New York City.....	5,000,000	11,881,901	16,981,901	32,213,414	do.....	17,056,595	1,283,623	617,155	660,468
36	Hanover Fire Insurance Co., New York City.....	1,000,000	835,409	1,635,409	5,840,185	do.....	3,674,470	540,028	204,042	335,986
37	Hartford Fire Insurance Co., Hartford.....	2,000,000	8,361,178	10,361,178	39,582,238	do.....	30,873,004	3,068,104	1,414,627	1,678,477
38	Home Fire & Marine Insurance Co., San Francisco.....	500,000	842,331	1,342,331	2,029,320	do.....	1,046,030	521,879	133,479	398,400
39	Home Insurance Co., New York City.....	6,000,000	15,255,139	21,255,139	50,289,411	do.....	31,568,247	3,042,402	986,491	2,105,911
40	Importers & Exporters Insurance Co., New York City.....	200,000	32,174	232,174	1,547,728	Marine.....	2,368,834	2,368,834	.....	2,368,834
41	Insurance Co. of North America, Philadelphia.....	4,000,000	6,000,000	10,000,000	30,809,413	Fire and marine.....	20,784,335	9,079,099	1,140,655	7,988,444
42	Jefferson Insurance Co., Philadelphia.....	400,000	343,745	743,745	1,592,057	Marine.....	511,096	511,096	118,869	392,227
43	Liberty Marine Insurance Co., New York City.....	250,000	161,471	411,471	1,545,246	do.....	511,000	511,000	118,869	392,131
44	Manufacturers Insurance Co. of America, Chicago.....	200,000	69,005	269,005	368,174	Fire and marine.....	258,961	151,062	.....	151,062
45	Massachusetts Fire and Marine Insurance Co., Boston.....	500,000	213,822	713,822	1,849,859	do.....	1,264,428	658,230	449,793	208,437

REPORT ON STATUS OF MARINE INSURANCE.

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46	Merchants Fire Assurance Corporation, New York City	400,000	976,487	1,376,487	2,893,801	do.....	1,792,428	205,412	30,032	175,380
47	Merchants Insurance Co., Bangor	200,000	116,105	316,105	506,172	Marine.....	274,312	274,312	274,312	274,080
48	Milwaukee Mechanics Insurance Co., Milwaukee	1,230,000	1,321,913	2,571,913	6,084,960	Fire and marine.	2,856,019	164,715	45,771	113,944
49	National Fire Insurance Co., Hartford	2,000,000	4,497,165	6,497,165	21,235,819	do.....	13,114,949	1,312,048	867,282	444,766
50	National Union Fire Insurance Co., Pittsburgh	1,000,000	724,023	1,724,023	5,200,613	do.....	3,281,418	369,601	315	369,286
51	New Brunswick Fire Insurance Co., New Brunswick	500,000	331,291	831,291	2,339,174	do.....	1,825,213	565,556	121,477	444,079
52	Newark Fire Insurance Co., Newark	500,000	555,592	1,055,592	2,777,435	do.....	1,864,776	275,982	158,059	117,923
53	New Hampshire Fire Insurance Co., Manchester	1,500,000	2,135,887	3,635,887	8,009,994	do.....	4,010,763	204,479	31,390	173,089
54	New Jersey Insurance Co., Newark	1,000,000	1,352,870	1,352,870	2,624,625	do.....	1,567,636	593,041	120,616	420,455
55	Niagara Fire Insurance Co., New York City	1,000,000	3,115,658	4,115,658	10,288,529	do.....	6,422,070	793,599	581,543	212,026
56	North Atlantic Insurance Co., New York City	250,000	161,878	411,878	1,545,662	Marine.....	511,000	511,000	118,869	392,131
57	North Branch Fire Insurance Co., Sumbury	500,000	169,346	669,346	1,390,656	Fire and Marine.	1,187,011	376,434	---	376,434
58	North River Insurance Co., New York City	600,000	1,409,873	2,009,873	5,324,556	do.....	3,873,942	455,969	282,328	173,641
59	Northwestern National Insurance Co., Milwaukee	1,000,000	1,669,903	2,669,903	8,679,305	do.....	4,095,487	682,933	302,710	380,223
60	Norwegian Underwriters, New York City	---	53,423	53,423	326,739	do.....	334,623	256,331	---	236,931
61	Old Colony Insurance Co., Boston	600,000	763,826	1,363,826	2,644,788	do.....	1,502,289	573,014	141,274	431,740
62	Palmetto Fire Insurance Co., Sumter	200,000	51,750	251,750	535,868	do.....	352,455	30,997	---	30,997
63	Peoples National Fire Insurance Co., Wilmington	1,000,000	270,516	1,270,516	2,170,166	do.....	1,015,462	86,096	---	86,096
64	Phoenix Insurance Co., Hartford	3,000,000	8,174,111	11,174,111	20,377,805	do.....	9,237,460	1,260,615	532,679	727,936
65	Providence-Washington Insurance Co., Providence	1,000,000	1,833,515	2,833,515	7,240,962	do.....	6,072,654	2,326,704	455,661	1,841,043
66	Queen Insurance Co. of America, New York City	2,000,000	4,660,450	6,660,450	14,457,150	do.....	8,133,762	1,863,638	1,136,494	727,144
67	St. Paul Fire & Marine Insurance Co., St. Paul	1,000,000	4,032,319	5,032,319	14,039,799	do.....	10,467,423	3,092,696	1,094,884	2,027,812
68	Security Insurance Co., New Haven	1,000,000	712,994	1,712,994	5,797,278	do.....	4,254,107	87,417	94,955	7,538
69	Springfield Fire & Marine Ins. Co., Springfield	2,500,000	3,612,473	5,612,473	14,776,815	do.....	8,900,343	326,109	231,671	174,726
70	Sterling Fire Insurance Co., Indianapolis	850,000	470,640	1,326,640	2,021,350	do.....	---	337	---	74,488
71	Stonewall Insurance Co., Mobile	150,000	111,560	261,560	306,724	do.....	39,642	3,036	36,606	3,036
72	Superior Fire Insurance Co., Pittsburgh	400,000	307,413	707,413	2,082,101	do.....	1,269,184	55,945	---	55,945
73	Transportation Mutual Insurance Co., Philadelphia	---	1,048,388	1,048,388	1,571,836	do.....	376,984	33,282	---	33,282
74	Union Insurance Co., Bangor	300,000	137,085	437,085	616,825	Marine.....	174,726	174,726	---	174,726
75	United States Fire Insurance Co., New York City	1,400,000	2,016,067	3,416,067	8,627,591	Fire and Marine.	5,305,856	548,228	409,401	138,827
76	United States Lloyds (Inc.), New York City	400,000	338,843	838,843	3,221,538	Marine.....	3,637,224	3,637,224	---	3,637,224
77	Vulcan Fire Insurance Co., San Francisco	500,000	381,347	831,347	1,359,063	Fire and Marine.	650,992	323,561	---	323,561
78	Washington Marine Insurance Co., New York City	200,000	95,995	295,995	408,710	Marine.....	147,821	147,821	---	147,821
79	Westchester Fire Insurance Co., New York City	1,000,000	1,592,813	2,592,813	8,816,337	Fire and Marine.	6,779,504	586,436	222,795	333,641
80	Republic Insurance Co., Dallas	200,000	101,591	301,591	555,769	---	307,881	71,177	---	76,174
Total		88,816,118	170,185,251	259,001,369	647,181,994	---	384,359,020	92,083,677	21,791,666	70,291,654

Table giving the 1918 record of American marine insurance companies—Continued.

Name and home office.	10 minus 11.								Net motor vehicle, tourist baggage, and registered mail losses incurred.	Net marine and inland losses paid, less motor vehicle, tourist baggage, and registered mail losses incurred.	Largest net amount on any one hazard.
	Gross marine and inland premiums.	Marine and inland return premiums.	10 minus 11.	Marine and inland reinsurance premiums paid.	Marine and inland risks written.	Net marine and inland losses paid.	Net motor vehicle, tourist baggage, and registered mail losses incurred.	Net marine and inland losses paid, less motor vehicle, tourist baggage, and registered mail losses incurred.			
	10	11	12	13	14	15	16	17	18		
1 Aetna Insurance Co., Hartford.....	\$9,654,442	\$957,122	\$8,697,320	\$5,314,771	\$1,229,802,808	\$2,232,747	\$214,468	\$2,018,279	\$200,000		
2 Agricultural Insurance Co., Watertown.....	1,435,531	200,082	1,235,449	551,840	359,232,392	366,774	136,702	230,072	100,000		
3 Alliance Insurance Co., Philadelphia.....	798,521	92,030	706,494	11,064	19,168,816	408,900	53,458	408,442	50,000		
4 American and Foreign Marine Insurance Co., New York City.....	2,415,368	96,463	2,318,875	1,442,020	4,851,430,744	167,986	61,520	106,466	60,000		
5 American Eagle Fire Insurance Co., New York City.....	699,717	67,405	632,312	145,380	90,957,779	170,643	20,835	149,788	100,000		
6 American Equitable Assurance Co., New York City.....	1,778,361	109,795	1,668,566	1,153,661	152,547,303	101,611	.....	101,611	40,000	
7 American Insurance Co., Newark.....	1,238,439	172,780	1,065,659	190,594	52,732,352	333,204	192,061	141,143	114,164		
8 American Merchant Marine Insurance Co., New York City.....	7,083,174	599,076	6,484,098	5,562,840	351,658,688	472,384	.....	472,384	27,000	
9 Assurance Underwriters of America, New York City.....	155,622	7,016	148,606	143	11,892,746	42,117	.....	42,117	10,000	
10 Atlantic Mutual Insurance Co., New York City.....	6,684,892	306,279	6,378,613	1,450,658	778,646,862	1,919,054	7,868	1,911,186	238,601		
11 Automobile Insurance Co., Hartford.....	10,716,404	3,139,648	7,576,756	3,681,744	3,387,120,808	1,880,149	732,961	1,147,188	65,000		
12 Boston Insurance Co., Boston.....	7,565,251	617,719	6,947,532	1,982,260	453,220,626	1,896,023	406,962	1,480,041	80,000		
13 Camden Fire Insurance Association, Camden.....	667,844	43,570	624,274	291,862	536,028,472	275,615	63,118	212,497	150,000		
14 City of New York Insurance Co., New York City.....	116,407	592	115,815	57,908	8,014,668	3,403	.....	3,403	50,000	
15 Columbia Insurance Co., Jersey City.....	810,214	93,828	716,386	142,806	78,488,177	263,527	179,179	81,348	.....	
16 Columbian Insurance Co., Indianapolis.....	117,831	11,548	106,283	34,863	.....	59,059	.....	.....	10,000
17 Commonwealth Insurance Co., New York City.....	666,208	105,163	561,045	140,130	34,621,400	345,335	278,862	66,473	37,500		
18 Concordia Fire Insurance Co., Milwaukee.....	76,820	.....	76,820	9	4,412,838	6,989	.....	6,989	25,000
19 Connecticut Fire Insurance Co., Hartford.....	1,108,969	164,666	944,303	24,640	401,578,982	456,899	225,294	231,605	75,000		
20 Continental Insurance Co., New York City.....	3,464,267	1,885,889	2,078,408	356,245	471,878,280	865,790	199,423	666,367	500,000		
21 Detroit Fire & Marine Insurance Co., Detroit.....	13,017	21	12,996	3,552	2,801,070	4,877	.....	4,877	50,000	
22 Dixie Fire Insurance Co., Greensboro.....	98,905	10,224	88,681	.....	6,130,483	15,220	.....	15,220	20,000
23 Equitable Fire & Marine Insurance Co., Providence.....	419,981	60,130	359,851	107,429	192,491,702	149,362	1,671	147,691	30,000		
24 Equitable Underwriters of New York, New York City.....	1,169,846	87,270	1,072,576	667,855	93,408,551	102,780	.....	102,780	20,000	
25 Federal Insurance Co., New York City.....	12,514,443	1,295,634	11,218,809	7,279,553	9,389,282,763	2,297,927	239,821	2,058,106	20,000		

26	Federal Union Insurance Co., Chicago.....	103,908	7,305	96,603	49,595	11,593,134	37,205	137,205	20,000
27	Fidelity-Phenix Fire Insurance Co., New York City.....	2,350,826	221,339	2,129,487	519,565	305,922,214	815,715	616,311	250,000
28	Fire Association of Philadelphia, Philadelphia.....	621,307	19,379	601,928	104,010	115,006	11,836	104,170	50,000
29	Fireman's Fund Insurance Co., San Francisco.....	16,142,379	1,680,512	14,461,867	7,725,827	5,018,440,705	5,249,999	4,811,413	100,000
30	Fireman's Insurance Co., Newark.....	825,151	89,182	735,969	102,486	29,462,580	144,407	127,615	100,000
31	Franklin Fire Insurance Co., Philadelphia.....	1,775,752	5,857	1,769,925	1,367,542	113,093,452	175,552	71,755	15,000
32	Glens Falls Insurance Co., Glens Falls.....	1,575,203	237,727	1,337,476	563,918	446,003,406	331,405	300,603	50,000
33	Globe National Fire Insurance Co., Sioux City.....	4,229	119	4,110	1,110	794,170,224	4,468,729	4,198,375	20,000
34	Globe & Rutgers Fire Insurance Co., New York City.....	9,337,359	212,610	9,124,735	1,602,695	81,363,812	513,915	4,146,352	70,000
35	Great American Insurance Co., New York City.....	1,638,935	175,902	1,463,033	1,142,702	31,363,812	368,383	193,050	230,000
36	Hanover Fire Insurance Co., New York City.....	845,213	492,655	352,558	129,283	124,376,946	344,217	151,197	100,000
37	Hartford Fire Insurance Co., Hartford.....	4,299,441	462,655	3,836,786	713,632	385,067,830	1,565,912	1,088,291	100,000
38	Home Fire & Marine Insurance Co., San Francisco.....	1,132,572	26,952	1,105,620	533,742	210,194,753	126,688	93,407	41,900
39	Home Insurance Co., New York City.....	4,741,707	492,365	4,249,342	1,139,905	1,834,709,710	1,505,425	924,208	300,000
40	Importers & Exporters Insurance Co., New York City.....	2,599,503	153,061	2,446,442	177,008	145,206,280	641,084	641,084	.....
41	Insurance Co. of North America, Philadelphia.....	12,076,749	1,206,053	10,870,696	1,791,597	1,974,343,076	5,746,665	5,386,079	150,000
42	Jefferson Insurance Co., Philadelphia.....	1,962,668	238,927	1,723,741	1,212,645	195,726,528	299,039	238,709	15,000
43	Liberty Marine Insurance Co., New York City.....	1,888,349	177,904	1,710,445	1,199,445	195,188,305	183,976	138,646	15,000
44	Manufacturers Insurance Co. of America, Chicago.....	160,830	9,525	151,305	214	11,730,133	67,454	67,454	8,000
45	Massachusetts Fire and Marine Insurance Co., Boston.....	1,394,433	320,117	1,074,316	416,086	110,807,628	480,341	237,389	28,000
46	Merchants Fire Assurance Corporation, New York City.....	231,480	18,028	213,452	8,040	20,064,945	97,897	56,504	20,000
47	Merchants Insurance Co., Bangor.....	316,883	23,412	292,971	13,653	19,212,322	160,820	166,820	5,000
48	Milwaukee Mechanics Insurance Co., Milwaukee.....	183,797	16,198	167,599	2,853	11,082,330	76,610	49,940	95,000
49	National Fire Insurance Co., Hartford.....	2,226,415	262,711	1,963,704	631,637	206,801,270	545,998	432,101	100,000
50	National Union Fire Insurance Co., Pittsburgh.....	676,987	83,361	607,576	237,976	88,114,400	225,656	223,392	50,000
51	New Brunswick Fire Insurance Co., New Brunswick.....	660,279	72,607	587,672	22,116	43,094,432	324,287	238,859	50,000
52	Newark Fire Insurance Co., Newark.....	341,656	60,339	281,317	5,335	24,743,147	112,984	78,682	50,000
53	New Hampshire Fire Insurance Co., Manchester.....	228,518	23,431	205,087	608	11,751,001	39,974	25,102	25,000
54	New Jersey Insurance Co., Newark.....	1,121,887	108,356	1,013,531	450,491	75,568,515	300,239	246,036	25,000
55	Niagara Fire Insurance Co., New York City.....	1,027,015	218,187	808,828	15,229	48,945,514	476,234	120,760	100,000
56	North Atlantic Insurance Co., New York City.....	1,888,349	177,904	1,710,445	1,199,445	195,188,305	183,976	138,646	15,000
57	North Branch Fire Insurance Co., Sunbury.....	411,905	35,561	376,344	.....	19,903,137	67,724	67,724	10,000
58	North River Insurance Co., New York City.....	650,052	23,230	626,816	170,847	135,781,037	134,545	119,904	60,000
59	Northwestern National Insurance Co., Milwaukee.....	1,606,132	167,103	1,439,029	736,117	135,622,863	354,964	277,695	50,000
60	Norwegian Underwriters, New York City.....	266,489	36,597	229,892	1,961	17,215,506	308,126	308,126	7,500
61	Old Colony Insurance Co., Boston.....	874,851	113,135	761,716	188,702	112,735,441	269,358	212,214	50,000
62	Palmetto Fire Insurance Co., Sumter.....	32,093	1,006	30,997	.....	16,729	16,729	16,729	17,500
63	Peoples National Fire Insurance Co., Wilmington.....	95,492	9,396	86,096	.....	11,049,982	18,222	18,222	50,000
64	Phoenix Insurance Co., Hartford.....	3,485,521	321,566	3,163,955	1,903,339	1,194,812,848	700,759	422,464	150,000
65	Provident-Washington Insurance Co., Providence.....	4,462,951	393,705	4,069,246	1,742,542	643,192,643	1,762,296	1,552,826	91,300

Table giving the 1918 record of American marine insurance companies—Continued.

	Name and home office.	10	11	12	13	14	15	16	17	18
		Gross marine and inland premiums.	Marine and inland return premiums.	10 minus 11.	Marine and inland reinsurance premiums paid.	Marine and inland risks written.	Net marine and inland losses paid.	Net motor vehicle, tourist baggage, and registered mail losses incurred.	Net marine and inland losses paid, less motor vehicle, tourist baggage, and registered mail losses incurred.	Largest net amount on any one hazard.
66	Queen Insurance Co. of America, New York City	\$2,774,313	\$388,472	\$2,385,841	\$522,202	\$676,981,909	\$804,349	\$460,179	\$344,170	\$131,850
67	St. Paul Fire & Marine Insurance Co., St. Paul	6,769,267	617,067	6,152,200	3,059,503	2,139,506,935	2,819,269	811,722	2,007,547	100,000
68	Security Insurance Co., New Haven	202,381	5,746	196,635	109,218	10,714,438	18,641	62,871	44,233	50,000
69	Springfield Fire & Marine Insurance Co., Springfield	468,207	70,840	397,367	71,258	233,499,653	34,107	65,301	31,194	70,000
70	Sterling Fire Insurance Co., Indianapolis	33,229	8,903	24,326	24,683	1,123,669	10,371	890	9,481	10,000
71	Stonevill Insurance Co., Mobile	5,261	.....	5,261	2,225	1,391,575	.....	47	.....	10,000
72	Superior Fire Insurance Co., Pittsburgh	58,679	1,628	57,051	1,106	3,836,633	1,561	.....	1,561	40,000
73	Transportation Mutual Insurance Co., Philadelphia	42,802	5,705	37,097	3,816	3,629,271	96,826	.....	.....	30,000
74	Union Insurance Co., Bangor	224,815	24,560	200,255	25,528	6,487,560	110,628	.....	.....	8,573
75	United States Fire Insurance Co., New York City	1,496,049	802,365	693,684	145,457	427,436,374	292,661	205,035	87,626	75,000
76	United States Lloyds (Inc.), New York City	8,037,832	717,403	7,320,428	3,683,205	4,507,745,480	2,471,932	247,506	2,223,526	.....
77	Vulcan Fire Insurance Co., San Francisco	332,969	2,533	330,431	6,870	67,624,141	98,158	.....	98,158	25,000
78	Washington Marine Insurance Co., New York City	154,825	6,671	147,854	33	13,142,409	.....	.....	.....	.....
79	Westchester Fire Insurance Co., New York City	976,257	125,314	850,943	264,507	518,826,525	.....	212,528	212,528	50,000
80	Republic Insurance Co., Dallas	76,174	4,997	71,177	.....	7,764,127	36,884	.....	36,884	8,000
	Total	179,321,123	20,324,600	159,004,523	65,882,233	36,761,023,120	50,820,792	10,729,369	40,400,839	.....

APPENDIX VI.

Table giving the 1918 record of United States branches of foreign admitted insurance companies.

Name and location of company.									
	Surplus to policy-holders.	Total admitted assets.	Type of business.	Net premiums, marine and inland.	Net premiums, motor vehicle, tourist baggage, registered mail.	Net marine and inland premiums, less motor vehicle, tourist baggage and registered mail.	Gross marine and inland premiums.		
	1	2	3	4	5	6	7		
1	Alliance Assurance Co. (Ltd.), London.....	\$695,554	Marine.....	\$1,071,888	\$49,753	\$1,022,135	\$2,015,062		
2	British & Foreign Marine Insurance Co. (Ltd.), Liverpool.....	1,373,844	do.....	2,005,381	195,598	1,809,783	6,328,623		
3	Commercial Union Assurance Co. (Ltd.), London.....	489,222	Marine and fire.....	1,041,644	293,846	747,798	2,829,044		
4	Fonciere Assurance Transportation & Accidents Co., Paris.....	239,143	Marine.....	70,131	(1)	70,131	77,132		
5	La Fonciere Insurance Co., Paris.....	234,766	do.....	81,487	(1)	81,183	93,565		
6	Indemnity Mutual Marine Assurance Co. (Ltd), London.....	647,950	do.....	912,239	196,288	715,951	1,760,212		
7	Liverpool and London and Globe Insurance Co. (Ltd.), Liverpool.....	266,844	Marine and fire.....	144,354	1,674	142,680	481,110		
8	London Assurance Corporation, London.....	771,411	do.....	1,459,595	22,382	1,437,213	3,270,150		
9	Marine Insurance Co. (Ltd.), London.....	1,336,638	Marine.....	2,076,126	413,870	1,662,256	4,742,242		
10	Maritime Insurance Co. (Ltd.), Liverpool.....	397,664	do.....	242,939	(1)	242,939	380,492		
11	National Insurance Co., Copenhagen.....	279,820	Marine and fire.....	898,982	(1)	898,982	971,911		
12	New Zealand Insurance Co. (Ltd.), Auckland.....	316,225	Marine and fire.....	3,609,096	(1)	3,609,096	3,995,383		
13	Norske Lloyd Insurance Co. (Ltd.), Christiania.....	225,148	do.....	21,171	(1)	21,171	56,420		
14	North British & Mercantile Insurance Co., London.....	348,637	Marine.....	233,245	(1)	233,245	277,336		
15	North China Insurance Co. (Ltd.), Shanghai.....	208,636	Marine and fire.....	2,802,467	(1)	2,802,467	2,963,681		
16	Norwegian Assurance Union (Ltd), Christiania.....	481,796	Marine.....	73,244	(1)	73,244	75,547		
17	Norwegian Atlas Insurance Co. (Ltd.), Christiania.....	305,015	Marine and fire.....	632,961	(1)	632,961	769,538		
18	Norwegian Joint Insurance Co. (Ltd.), Christiania.....	520,804	Marine.....	484,831	9,214	475,617	800,580		
19	Norwich Union Fire Insurance Society (Ltd.), Norwich.....								
20	Ocean Marine Insurance Co. (Ltd.), London.....								

1 None given.

REPORT ON STATUS OF MARINE INSURANCE.

Table giving the 1918 record of United States branches of foreign admitted insurance companies—Continued.

	Name and location of company.	Surplus to policy-holders.	Total admitted assets.	Type of business.	Net premiums, marine and inland.	Net premiums, motor vehicle, tourist baggage, registered mail.	Net marine and inland premiums, less motor vehicle, tourist baggage and registered mail.	Gross marine and inland premiums.
		1	2	3	4	5	6	7
21	Phoenix Assurance Co. (Ltd.), London.....	\$321,223	\$534,108	Marine and fire.	\$309,922	\$285,113	\$84,809	\$600,566
22	Reliance Marine Insurance Co. (Ltd.), Liverpool.....	588,939	809,678	Marine...	354,205	9,214	344,991	603,590
23	Rossia Insurance Co., Petrograd.....	1,038,067	2,267,508	Marine and fire.	4,330,687	(1)	4,330,687	5,131,032
24	Royal Insurance Co. (Ltd.), Liverpool.....	276,681	834,357	do.	1,157,906	34,214	1,123,692	2,182,936
25	Royal Exchange Assurance, London.....	469,714	1,092,807	do.	1,043,275	421,373	621,902	2,295,169
26	Scandinavian-American Assurance Corporation (Ltd.), Christiania.....	1,677,410	3,274,425	Marine...	2,703,571	2,454	2,701,117	3,083,132
27	Sea Insurance Co. (Ltd.), Liverpool.....	803,135	2,462,275	do.	1,907,291	39,016	1,923,275	8,003,970
28	Second Russian Insurance Co., Petrograd.....	442,892	1,060,303	Marine and fire.	1,618,096	(1)	1,618,096	1,719,113
29	Skandinavia Reinsurance Co., Copenhagen.....	380,224	464,143	Marine...	393,670	(1)	393,670	414,200
30	Standard Marine Insurance Co. (Ltd.), Liverpool.....	1,924,142	2,795,452	do.	1,712,243	6,960	1,705,282	5,606,164
31	Switzerland General Insurance Co., Zurich.....	1,043,812	1,392,228	do.	755,795	1,277	754,518	1,004,039
32	Thames & Mersey Marine Insurance Co., Liverpool.....	794,683	1,604,411	do.	1,178,523	111,546	1,066,977	4,309,066
33	Tokio Marine and Fire Insurance Co. (Ltd.), Tokio.....	1,254,214	1,729,030	Marine and fire.	1,109,011	140,267	968,754	2,397,820
34	Union Insurance Society of Canton (Ltd.), Hongkong.....	248,899	774,685	do.	1,041,019	(1)	1,041,019	1,178,179
35	Union Hispano-Americana De Seguros, S. A., Habana.....	311,171	525,172	do.	566,109	(1)	566,109	622,808
36	Union Marine Insurance Co. (Ltd.), Liverpool.....	327,448	1,302,952	Marine...	797,248	30,253	766,995	2,496,031
37	United British Insurance Co. (Ltd.), London.....	317,528	761,465	Marine and fire.	705,714	(1)	705,714	829,237
38	Western Assurance Co., Toronto.....	249,938	1,308,969	do.	1,148,053	(1)	1,148,053	2,805,714
39	Yang-Tsze Insurance Association (Ltd.), Shanghai.....	529,078	1,139,307	Marine...	887,815	(1)	887,815	1,113,801
	Total.....	22,428,925	45,952,782		41,701,994	2,264,606	39,437,387	78,571,895

1 None given.

Table giving the 1918 record of United States branches of foreign admitted insurance companies—Continued.

	Name and location of company.	Marine and inland return premiums.	Gross marine and inland re-insurance premiums, less return premiums.	Marine and inland re-insurance premiums paid.	Marine and inland risks written.	Marine and inland net losses paid.	Net motor vehicle, tourist baggage, registered mail losses incurred.	Largest net amount on any one hazard.
		8	9	10	11	12	13	14
1	Alliance Assurance Co. (Ltd.), London.....	\$170,509	\$1,844,553	\$772,665	\$229,944,597	\$951,400	\$23,487	(1)
2	British & Foreign Marine Insurance Co. (Ltd.), Liverpool.....	400,209	5,928,414	3,923,034	1,408,498,670	827,610	118,872	\$65,000
3	Commercial Union Assurance Co. (Ltd.), London.....	338,567	2,190,477	1,148,794	7,122,820,736	562,651	22,490	(1)
4	Fondere Assurance Transportation & Accidents Co., Paris.....	3,844	73,288	3,306	10,033,042	25,204	(1)	(1)
5	La Fonderie Insurance Co., Paris.....	3,690	89,875	8,388	11,135,117	52,157	(1)	50,000
6	Indemnity Mutual Marine Assurance Co. (Ltd.), London.....	245,458	1,514,754	602,515	692,329,719	591,776	91,363	(1)
7	Liverpool & London & Globe Insurance Co. (Ltd.), Liverpool.....	25,886	455,224	310,869	54,010,126	47,057	(1)	(1)
8	London Assurance Corporation, London.....	292,186	2,977,964	1,518,369	571,543,634	1,256,469	3,967	20,000
9	Marine Insurance Co. (Ltd.), London.....	409,571	4,332,671	2,256,546	11,772,931,388	1,558,436	66,531	20,000
10	Maritime Insurance Co. (Ltd.), Liverpool.....	20,327	360,165	117,226	40,241,898	115,526	(1)	20,000
11	National Insurance Co., Copenhagen.....	61,947	909,964	10,982	91,941,107	238,717	(1)	20,000
12	New Zealand Insurance Co. (Ltd.), Auckland.....	288,459	3,706,924	97,528	388,079,399	2,639,791	(1)	150,000
13	Norske Lloyd Insurance Co. (Ltd.), Christiania.....	1,751	54,666	33,495	12,127,942	26,318	(1)	(1)
14	North British & Mercantile Insurance Co., London.....	7,538	269,798	36,553	196,871,150	103,582	(1)	(1)
15	North China Insurance Co. (Ltd.), Shanghai.....							
16	Norwegian Assurance Union (Ltd.), Christiania.....	161,214	2,802,467	(*)	222,276,098	1,560,141	(1)	50,000
17	Norwegian Atlas Insurance Co. (Ltd.), Christiania.....	2,303	73,244	(*)	8,534,516	(*)	(1)	15,000
18	Norwegian Joint Insurance Co. (Ltd.), Christiania.....							
19	Norwich Union Fire Insurance Society (Ltd.), Norwich.....	14,945	754,593	121,632	733,679,745	159,939	(1)	(1)
20	Ocean Marine Insurance Co. (Ltd.), London.....	51,882	748,998	264,114	195,968,024	304,541	2,078	25,000
21	Phoenix Assurance Co. (Ltd.), London.....	99,887	500,679	130,757	99,990,598	164,610	152,140	52,500
22	Reliance Marine Insurance Co. (Ltd.), Liverpool.....	41,123	562,464	208,239	123,522,469	235,647	2,078	25,000
23	Rossia Insurance Co., Petrograd.....	747,509	4,383,523	52,837	3,451,371,531	2,767,783	(1)	22,500
24	Royal Insurance Co. (Ltd.), Liverpool.....	178,018	2,094,918	847,012	1,149,445,818	611,989	12,838	60,000
25	Royal Exchange Assurance, London.....	324,892	1,970,277	927,002	701,073,678	577,911	213,732	(1)
26	Scandinavian-American Assurance Corporation (Ltd.), Christiania.....	90,225	2,992,907	289,337	450,218,387	994,545	(1)	(1)
27	Sea Insurance Co. (Ltd.), Liverpool.....	547,772	7,516,198	5,548,907	1,044,565,463	1,484,936	14,175	20,000
28	Second Russian Insurance Co., Petrograd.....	98,195	1,620,918	2,822	142,769,018	713,501	(1)	30,000
29	Skandinavisk Reinsurance Co., Copenhagen.....	19,334	394,866	1,196	1,000,655,490	240,786	(1)	(1)
30	Standard Marine Insurance Co. (Ltd.), Liverpool.....	752,514	4,550,650	3,138,408	711,284,239	1,295,690	458	25,000

* None.

† None given.

Table giving the 1918 record of United States branches of foreign admitted insurance companies—Continued.

	Name and location of company.	Marine and inland return premiums.	Gross marine and inland premiums, less return premiums.	Marine and inland re-insurance premiums paid.	Marine and inland risks written.	Marine and inland net losses paid.	Net motor vehicle, tourist baggage, registered mail losses incurred.	Largest net amount on any one hazard.
		8	9	10	11	12	13	14
31	Switzerland General Insurance Co., Zurich.....	\$20,061	\$983,978	\$228,183	\$119,082,033	\$271,304	(1)	(1)
32	Thames and Mersey Marine Insurance Co., Liverpool.....	328,150	3,930,916	2,802,393	2,367,195,280	686,839	\$85,969	(1)
33	Tokio Marine and Fire Insurance Co. (Ltd.), Tokio.....	257,912	2,679,908	1,570,897	695,176,553	801,628	61,134	(1)
34	Union Insurance Society of Canton (Ltd.), Hongkong.....	39,018	1,139,161	98,142	136,334,430	419,168	(1)	\$75,000
35	Union Hispano-Americana De Seguros, S. A., Habana.....	45,499	577,309	11,139	56,072,016	209,215	(1)	(1)
36	Union Marine Insurance Co. (Ltd.), Liverpool.....	210,840	2,275,191	1,477,943	4,293,272,423	529,178	7,041	(1)
37	United British Insurance Co. (Ltd.), London.....	108,352	720,885	15,172	41,461,873	257,578	(1)	55,000
38	Western Assurance Co., Toronto.....	135,818	2,609,896	1,461,812	331,866,562	839,534	(1)	30,000
39	Yang-Tsze Insurance Association (Ltd.), Shanghai.....	65,010	1,045,791	157,975	144,300,504	651,732	(1)	50,000
	Total.....	6,673,421	71,898,474	30,196,539	40,817,625,460	24,774,889	880,853	

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